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## CURRENT ECONOMIC PROBLEMS

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# CURRENT ECONOMIC PROBLEMS

A SERIES OF READINGS IN THE CONTROL OF  
INDUSTRIAL DEVELOPMENT

BY

WALTON H. HAMILTON

PROFESSOR OF ECONOMICS, THE ROBERT BROOKINGS GRADUATE  
SCHOOL OF ECONOMICS AND GOVERNMENT

THIRD EDITION



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TO  
FRED M. TAYLOR





## PREFACE

If intent has found expression in accomplishment, this volume is best described by its subtitle, "A Series of Readings in the Control of Industrial Development." The theory upon which the book has been constructed can be reduced to a few simple propositions which an increasing number of economists (and many in kindred disciplines) will regard as axiomatic. They are that our society is a developing one; that the institutions which make up its structure are interdependent; that industry occupies a place of prime importance in determining its nature; that current problems rest upon the triple fact of an immutable human nature, a scheme of social arrangements based upon individualism, and a world-wide industry organized about the machine technique; that current problems represent a lack of harmony between these elements; and that conscious attention to these inter-related problems is the means through which industrial development is to be controlled.

In this belief the editor has gathered together, adapted, and arranged the readings which follow. Variety and multiplicity are not inconsistent with unity. The experience of other teachers with this volume indicates that the thread of the economic discussion which the editor has tried to present in the words of the many writers whom he has used has not been lost, and that the argument, despite its multiplicity of authorship, moves forward from chapter to chapter.

It hardly needs to be said that at most this book gives only a perspective of economic problems. It aims to reveal the outstanding features of economic organization, not to make a detailed study of the institutions which make it up. Its intent is to translate current economic problems into the problem of the control of industrial development, not to deal with these problems separately or conclusively. Since one cannot know his subject without seeing it from the outside, it aims to present an outside view of questions of the day and to indicate their places in the larger universe which contains them. It aims to give the perspective which precedes specialized study and to make it real and relevant. It is no substitute for that specialized study itself.

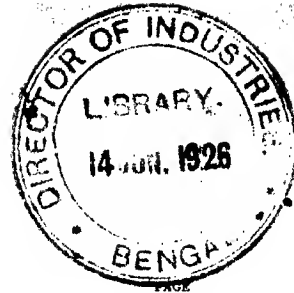
Many teachers of economics found this collection useful in the forms in which it was published ten and six years ago. In this new revision it is hoped that the volume has regained some of the immediate values of which it has been robbed by the swiftly marching

events of a developing industrialism. The fundamental idea upon which the book is constructed has, of course, been modified, but its identity has not been lost. The materials now included are of more immediate value as illustrations, but the conception of economics which runs through them is much the same. The passing of the war, and even more our concern with the war problems, have allowed many readings, of great interest six years ago, to be replaced with others which are of more lasting significance. But it hardly seems necessary to point out in detail the many changes which have been made. The new reader will take the book for whatever it is worth, oblivious to its past. The curious one (if such there be) can easily discover the nature of the revision by a comparison with the first edition.

It remains for the editor to make some mention of his many obligations. He has drawn largely upon the classroom experience of those who were associated with him in the teaching of economics. For many of the readings he is indebted to former students. He is under particular obligations to Mr. Fred M. Taylor, of the University of Michigan, and to Mr. Harold G. Moulton, of the Institute of Economics. His obligations to Lucile Rhodes Hamilton are too many to be catalogued here. The editor's obligations to various authors and publishers who have generously permitted the use of such valuable copyright material are set forth in detail in the bibliographical footnotes.

W. H. H.

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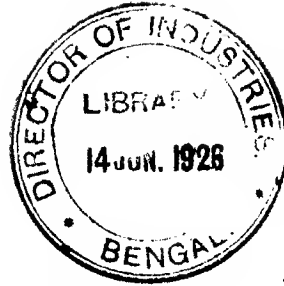
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## I

### THE PROBLEM OF CONTROL

The perplexing economic questions of the day, as we shall learn, are not simple little affairs which can be separated from the "prevailing system" and analyzed and "solved" in isolation. They are so closely related that a change in one affects many others. They are inseparable parts of that complex of institutions, traditions, conventions, and activities to which we attach the name Modern Industrialism, and they are intimately associated with the multifarious legal, political, economic, ethical, and social aspects of this larger system. It is, therefore, in view of this larger whole that our problems are what they are.

There is nothing singular in our possession of troublesome problems. They are the common heritage of the ages. When the universe was contrived enough of antagonism was left in it to keep some problems constantly before us. The sweep of change constantly adds new recruits to this array. It may be that somehow or other problems get "solved"; it may be that they merely become obsolescent and, like old machinery, are "scrapped"; it may be that they are forced to surrender their places to newcomers; or it may be that they tend to lose their identity in that of other problems. Perhaps all of these things happen; but, however that may be, old problems tend to disappear. But, strangely or naturally enough, as you may choose to view it, we never have an end of problems. As old ones depart, new ones, without awaiting welcome, come forward. Some of these newcomers are old problems appearing in new forms; for, after all, there is much that is fundamental in life and institutions. The questions of efficiency, of poverty, of social classes, and of work and reward are as old as society. But some problems are new; and even the old ones are for us quite distinct from their predecessors—distinct in the economic status of the individuals affected, distinct in the scheme of values surrounding them, and distinct in the treatment for which they call.

All of these problems, old and new alike, are aspects of the development of society; they emerge or assume new forms as the social complex develops. They give evidence of a lack of compatibility somewhere between the many and various aspects of social life—between institution and institution, between activity and custom, between practice and ideal. Their conscious—or unconscious—solution is nothing else than a restoration of harmony between antagonistic elements. Since, too, growth is not uniform, their passing leads usually to the rise of new problems. Their "solution" has the further effect of contributing to the development of society; the process is advanced.

A word which we are coming to use repeatedly in discussing these problems is "control." Once upon a time that word was in good repute and people talked quite naturally about "obligations" and what the church, the state, or another social institution had a right to impose upon the individual. Then there came a period when we were quite conscious of our rights as individuals; when this word lost its vogue. Then it came about that we professed an adherence to *laissez-faire*, the principle of individualism, a belief in natural rights, or some form of doctrine to the effect that individuals should be free and social arrangements should be left alone.

In the latter half of the nineteenth century the spirit of individualism and the theory of *laissez-faire* were dominant. But increasingly we came to the

double realization that we were not letting all institutions alone, but only certain ones that some of us thought ought to be left alone and that, if we collectively were not controlling institutions, some among us were. This, with a growing conception that laissez-faire has not imparted the most orderly direction to social development, caused us little by little to bring back into our vocabularies words like "direction," "authority," and "guidance," and to bring again a measure of conscious control into the scheme of arrangements which make up the world in which we live our daily lives. It led, too, to the elaboration of a theory of the control of economic life and social development.

But this newer stage, like others which have preceded it, has raised its problems. What is control? What are the agencies through which it is exercised? Why, after all, do we need it? It leads, too, to the most fundamental of all economic problems, because it is not an economic problem at all—of what are our ends? What are our aims? What is the industrial system for, any way? What can we do with it? And what is it doing with us? The answer to this larger question conditions our answers to smaller questions which are more properly economic. We need to recognize at the beginning of our study that the world is not all industrial and that all study is not in economics. But these questions are not enough for the moment. They are with us; or rather we will never get away from them. But just now we need to get on with our study.

## A. MODERN INDUSTRIAL SOCIETY

### 1. The Essentials of Modern Industrialism<sup>1</sup>

An understanding of the nature of modern industrialism is essential to an intelligent grasp of its problems and a rational attempt at their solution. Such an understanding comes most easily from a study of the process by which modern industrial culture has come to be what it is. Like all historical work of value, such a study must have a definite goal before it. It must aim to reveal those institutions, those intellectual and emotional forces, which have given character to the prevailing system, which are responsible for its problems and which condition their solution. For that reason it is best to begin the historical account of modern culture with a brief statement of its essential characteristics.

Modern industrialism is a peculiar culture; it is a thing apart. Nothing like it has previously existed. The Chinese system of the Far East, clinging tenaciously to the past, has developed a system which is a sprawling, conglomerate fact. The nearer Orient, India, for instance, has repressed self-assertion, has subordinated the material side of social life, and has produced, as if from a mold, a rigidly hard social system. Even the European states of the ancient world failed to organize themselves as industrial and social wholes. For example, the Greeks showed nowhere their inability at organization more clearly than in failing to associate the individual's gain from his labor with a service to a larger group. The unity achieved by

<sup>1</sup>An editorial (1914).

Rome was a mechanical, not an organic, unity. Both alike despised manual labor, and, for that reason, failed to lay an adequate foundation for a permanent industrial system. How distinct is modern industrialism is revealed by a brief citation of some of its peculiar aspects. The list mentioned below is not intended to be all comprehensive and the characteristics mutually exclusive. It is merely a statement of some of the characteristics of our system which the student of current economic problems should keep clearly in mind.

First, America and Western Europe, Christendom, in fact, constitutes a single industrial society. Differences in race, language, government, and religious creed are almost negligible in comparison with what the Western World has in common. Even where these differences exist, the basic elements of these institutions are much the same. As ideal or actuality universality has long been a characteristic of the system. The Roman Empire was universal. When the earthly society disintegrated, it remained in idea as a universal, heavenly kingdom. The Catholic church, patterned after this heavenly society, kept the ideal alive when more substantial unity was impossible. Toward the realization of universality society tended to be organized in the Catholic church. At last, when the spell of Catholicism was broken, political, social, and particularly industrial and commercial institutions had tied the Western World together into a single industrial culture.

Second, Western Civilization is an extremely fluid culture. Few legal and authoritative restrictions are placed upon one's right to choose his own occupation. There are no hard and fast class lines. In the thought of the people there are practically none. Freedom of movement from place to place is allowed. In all of life's relations there is such fluidity that the adaptation of population, natural resources, and acquired capital to each other and to changed conditions is not only rapid but is constantly in process. Briefly, Christian teaching, the presence of the opportunities afforded by the American continent, and the industrial revolution, have all emphasized this characteristic.

Third, ours is a humanistic and a material culture. A contempt for human life and the material means to well-being, a denial "of the world, the flesh, and the devil," a desire to escape from "the vain pomp and glory of the world," has never been an essential part of the attitude of Western peoples toward life. Even monasticism came to be based upon the theory that life in this world is worth while. This institution became a means through which otherworld obligations, placed upon man by the peculiar conditions accompanying the disintegration of Roman society, could be vicariously satisfied by a small part of society, and the greater part could be released to live



the better life of the world. Men who fervently sing "For such a worm as I" and "This world's wilderness of woe, this world is not my home" do not discover new continents, invent printing and the steam engine, and erect world-wide industrial systems. Unlike Greeks and Romans with us the idea of the worthwhileness of life has carried with it the idea of the dignity of manual toil, which has furnished an adequate foundation upon which to build an industrial culture.

Fourth, our culture is in a very high degree a pecuniary culture. More than by any one thing our economic conduct is actuated by the desire for pecuniary profit. We go into those occupations promising the highest pecuniary returns. Our capital breaks over national barriers when the rate of interest abroad mounts higher. Even back in the Middle Ages, penance, a sacrament of the church, was put on a pecuniary basis. Escape from the consequences of certain actions was allowed to those who had accumulated wealth. Thus the accumulation of wealth and the stratification of society upon a pecuniary basis was encouraged. Today in the court, in the church, in the press, in social circles, the man of wealth is treated with greater consideration because of his wealth. The three characteristics mentioned above, fluidity, humanism, and the dominance of the pecuniary motive have made our culture a highly industrial culture, for it is in industry that these motives find their fullest expression.

Fifth, our culture places the value of human actions and institutions in some end or institution over and beyond themselves. The justification of individual activity is not to be found in personal good. The actions of individuals are found worthy of praise only because of a larger and a greater "society," toward which they are as means to an end. *Laissez-faire* is defended not as a means to self-aggrandizement, but as a theory of social welfare. "Big business" talks in terms of "pay envelopes," "full dinner pails," and "general prosperity." But the end from which the value comes is even less immediate than present society. The justification of the present is in the future. Back in the Middle Ages one's conduct was regulated by one's desire for his "soul's salvation." As men little by little ceased to have souls, and "life's fulness" came more and more to be recognized as life's end, the emphasis formerly attached to the other world associated itself with an ideal society which was striving for realization in the church. Even today, obscured as it may seem, an ideal future society is the potent force in evaluating conduct, individual and social. How potent is this idea of the future a few statements will show. We use "roundabout" processes of production. In legislation we seek to conserve the interests of capital, future goods, rather than give our attention to conserving immediate income. We speak in terms of

progress and evolution. We condemn, as never before, industry and politics because of its "shortsightedness." We give serious consideration to such a radical program of industrial reform as socialism. The value of the present thing is in large part a value derived from a future ideal. Thus a spirit of idealism, seeing a realization of its purposes in a less immediate society, is a very vital factor in determining the course of industrial development.

These several characteristics, material and emotional as all of them are, are vital because they underlie our culture, condition our growth, and must be clearly recognized in any program of political, social, and industrial reform.

## 2. The Current Stage in Social Development<sup>2</sup>

It is in the economic world of here and now that we are interested. Amid its complex of activities, institutions, conventions, ideals, standards, and modes of thought we order our lives. Its multifarious and baffling problems are our problems—ours to "muddle" or to "solve." How we handle them will determine quite largely what the economic world of tomorrow is to be like. For these problems are aspects of our industrial system; they are incidents in the development of our economic society. They emerge, or assume new forms, as the larger whole develops. With its onward sweep severally they pass into oblivion, lose themselves in new problems, assume unfamiliar forms, or otherwise manage to get "solved." They are not distinct things; they cannot be detached from the larger scheme of affairs to which they belong. They cannot be disposed of in isolation, as if the universe were one thing and each of them another. They are intimately associated with each other, with the economic system to which they belong, and with the larger world, which includes the legal, political, ethical, social, and all other aspects of life, economic and non-economic. To understand them aright we must know something of this larger whole in its current manifestations.

In its rapid development our society is approaching the end of what, in no invidious sense, we may call the exploitative period. Our development in the nineteenth century was dominated by our stores of natural wealth and by the use of an expanding and developing machine technique. The century witnessed the conquest of a continent, seemingly possessed of never-failing resources. The gifts of forest, waterfall, stream, soil, and mine, by the magic touch of modern technique, were transformed into a golden stream of wealth. The expanding system absorbed larger and larger volumes of capital

<sup>2</sup>An editorial (1915, 1919).

and increment after increment of alien labor. Its object and end was prosperity.

This process of getting rich absorbed quite largely our attention and our energy. Our thought was for virgin fields for machine effort. Our impatience was at the slowness of our very rapid industrial development. Our powers of control, so far as they were consciously used, were aimed at speeding up. We made no inquisitive search into our legal arrangements, our fundamental institutions, or our ethical standards. We did not perceive that development in one aspect of life leaves incompatibilities that need attention. It did not readily occur to us that improvement should occur elsewhere than in the technique of production, the growth of business organization, and the expansion of the pecuniary system. In short, we neither tried to discover, nor succeeded in discovering, society. We had problems, of course—many more than we had need for. But they were concerned with removing the barriers that opposed the establishment of a pecuniary system on a nation-wide plan.

This neglect of the non-industrial side of life expressed itself most conspicuously in a formidable and overgrown individualism. Since we were growing wealthy, all was well. We rarely thought of attributing responsibility for what we did not like to society, institutions, conditions, or environment. Quite as rarely did we attribute prosperity to the abundance of our natural resources. We firmly believed that each individual "was master of his fate"; that "opportunity knocks once at every gate"; that "there is plenty of room at the top"; and that successful men are "self-made."

This habit of thought worked its way into the whole range of our institutions. A fundamental assumption of individualism was that all men were equal. A resulting principle of action was that the state should give "equal rights to all, and special privileges to none." Equality suggested the attainment of political wisdom by calculation. Accordingly the object of legislation was "the greatest good to the greatest number." Since each person possessed one, and only one, vote, it was evident that our government was a democracy. In ethics our conduct was measured by individualistic standards. In education, by setting up the system of free electives, we made the individual student the best judge of the training that was good for him. In economics our attention was given very largely to the market; the distribution of wealth and proposals of social reform were alike treated as if they were mere questions of value theory; and we elaborated and generally accepted the doctrine that one "gets what he produces." Even our religious systems were characterized by an intense and dogmatic individualism.

It was, perhaps, inevitable that we should not escape looking at things too narrowly. We manifested a contempt for philosophy and general theory. We encouraged specialization, but overlooked the broad and general training which should underlie it. We investigated particular subjects without knowing the general fields to which they belonged. We attempted to resolve phenomena into general schemes without understanding the laws which govern the phenomena. We formulated, analyzed, and attempted to solve our problems as if they were so many distinct entities. We saw the whole only as an aggregation of parts, and society only as a collection of individuals.

Closely associated was a notion of social change in mechanical terms. When we became impatient with this or that, we demanded an immediate remedy. We turned to the state as the obvious agent, one which we professed to distrust, and demanded legislation. If our attention was not distracted by some new "abuse," we usually turned out the party in power if immediate results were not forthcoming. Even our reformers usually gave us panaceas for all social ills, or demanded a reconstruction of the whole scheme of life.

Many of our highest social values are associated with individualism. Its note must be retained to keep the system from being resolved into an orderly, mechanical, prosaic, and dull scheme of things. Without it, it is hard to see how society can most fully utilize its capacity for development. In the America of the nineteenth century it helped to solve the problems of a young society as perhaps nothing else could have done. The individual pluck, energy, and initiative which it called forth were just the qualities necessary to the gigantic and crude stage of development through which the country was passing. It remains in the present, however, in a very dominant form, thoroughly ingrained in our institutions and in the social philosophy of classes which occupy quite important positions in society.

But for some time we have been conscious that we are approaching the end of this exploitative period. We have by no means reached the end of our resources; but we have come to see that they are no longer boundless. It is evident that there is real danger of wasting our patrimony. Opportunities for sudden wealth are no longer plentiful. We have awakened to the necessity of economy, of giving long and careful thought to our social arrangements. We are beginning to find out, too, that our prosperity has entailed its costs. We gave conscious thought to securing a well-developed machine-system, a large population, and a large measure of individual liberty, believing that these would bless us with wealth. We succeeded in securing these things. But we neglected to take thought for the cultural incidence of the industrial system. As a result we have acquired a

number of things for which we did not ask, that may well be considered the costs of our material progress. Our urban life has its full complement of slums, overcrowding, vice and poverty. There is clearly evident a tendency toward a stratification of society on a pecuniary basis, with a funded-income class at the top and a proletariat of alien blood at the bottom. There is growing a spirit of protest based upon a philosophy quite foreign to that which underlies our cherished institutions. Our vast pecuniary system is making the lot of labor, and capital, too, for that matter, extremely insecure. Moreover, we are beginning to see that our prosperity is imposing its costs upon the next generation, in conditions and institutions which we did not will, in problems which we helped to raise but cannot solve, and in depleted resources with which to work out its social salvation.

As we realize these things, there grows up among us a reaction against the extreme individualism of the nineteenth century. We are imposing limitations upon what we conceive individual initiative and energy to be capable of accomplishing; we doubt if the ladder which leads to the top has its full number of rungs; all successful men are no longer "self-made." We occasionally even make excuses for the man who fails. We have discovered "environment," and speak quite frequently of "exceptional opportunities," "social conditions," and the "favor of fortune." We are beginning to associate those things which we do not like with an "overdeveloped individualism," and to see "grave dangers" in unrestricted liberty.

This change is manifesting itself in a changed attitude toward our institutions. Quite frequently we use the word "privilege" in connection with the activities of government. Seemingly forgetful of our former boasts, we are today demanding reforms which will make our government "democratic." We are not distrustful of the fundamental soundness of our legal institutions, such as property, contract, equality before the law, etc., but we are beginning to suspect that they bear too many signs of having been forged to meet the needs of frontier and craft societies; that they are more consonant with the plow and the spinning-wheel than with the powerloom and the locomotive. We are qualifying ethical standards which we regard as valid with the adjective social. In education the elective system is giving way to a flexible curriculum adapted to the newer society. A spirit of group and class welfare is expressing itself in such voluntary associations as the trade and craft unions, and is beginning to permeate legislation. We are beginning to trust the state, and are no longer affrighted by the cry of paternalism. In economics we use the term "social value"; we have begun to insist that economic theory is not confined to value theory; and we are more clearly recognizing that distribution of wealth and projects of

social reform are concerned with institutional arrangements. Our religious systems are more and more emphasizing the note of "social service."

With the reaction from individualism has come a protest against our habit of considering the particular apart from the general. We are beginning to learn that things in general matter; and that the reality of our problems lies in their connection with social life in its varied and multifarious aspects. We are realizing that specialization, to be anything more than clerical, must have a broad basis. We are coming to see that the whole is something quite different from the sum of its parts; that society is not a mere aggregation of individuals.

Quite naturally enough the impatience that comes from the newer view of things has enough of the older thought in it to place great reliance in mechanics. It wants results and wants them now. Instinctively it turns to the state and demands legislation. But, in spite of that, we are surely, if slowly, learning that there are decided limitations upon what can be accomplished by tinkering. We know that laws must be passed, and that there are many things which immediately they can be made to do. But we are beginning to understand that in many cases they produce their results, not from their direct enforcement, but from a series of reactions which they start, and these results can only gradually appear. We are learning, too, that there are other and more delicate instruments of control, such as the educational system, codes of professional ethics, occupational associations, and even conventions and traditions, that we may use in the furtherance of our schemes, and that these delicate instruments will reach many things too subtle and too minute to be touched by the bolder and cruder machinery of the state.

In view of this it is not surprising that we are at last learning that we do not have to be forever in a hurry. We must pay for what we get. Perfect societies are not El Dorados or Klondikes to be stumbled upon. A Utopia, even if it can be realized, cannot be juggled out of a hat by a social magician. We must through development gradually assume the social form we desire. Only knowledge is obtained; wisdom is attained. Even our socialists, who, only yesterday, were promising us "a new heaven and a new earth," have learned that there is a tomorrow.

And withal, in our radicalism, if you choose to call it such, we are becoming more conservative. If we have begun to ask impertinent questions about classes, property, and social arrangements generally, it is not because we are condemning, but only because we are socially inquisitive. We would prove all things in order that we may hold fast to that which is good. Yet more clearly than ever before

we realize the vastness, complexity, and even the mysteriousness of our social system. We know that we understand how various institutions and agents work very imperfectly. We know that many that seem to us to be without responsibility are intimately associated with some very important functions. We are not quite sure that we could create agencies which would perform the same functions more efficiently or with less cost. These things incline us to caution, to take easy steps, to examine results carefully before proceeding, and to use very flexible programs. But, if our knowledge is small, and if the difficulties are great, the call is for a greater determination, a more farsighted vision, a more careful, comprehensive, and patient study, and greater deliberation about ways and means.

In view of this particular crisis in our development we must consider our problems. We must recognize the part which the older society, the older institutional system, and the older individualistic thought have played and are still playing. We must as clearly recognize the newer tendencies, both in the institutional system and in the newer attitudes toward our economic arrangements. Many of these problems we shall find to be old. When the universe was contrived many antagonisms were left. The enigmas of rich and poor, of waste and poverty, of privilege and oppression, have been presented to us by the many ages, which they have baffled. As likely as not we shall leave them as part of our heritage to succeeding generations. Some of them appeared with the machine-system, and have become more and more conspicuous as the newer technique conquered the continent. Of these are the problems connected with huge aggregates of wealth, such as railroads and capitalistic monopolies. Some come from incompatibilities between advancing and stationary aspects of social development. The legal problem involved in employer's liability is typical of this class. Some are manifestations of a later stage of the machine culture. Of this kind are the problems of the relationship of wealth to welfare in a society organized upon a pecuniary basis.

Of some of these problems we have long been conscious. The events of the decade before the war brought others before us. The many problems raised by the war and the many changes following in its wake forced us to look less superficially at our industrial arrangements and revealed many things there which we had only remotely suspected. Who knows but there are many others which are with us, but which we cannot see because of intellectual blindness? But, old or new, familiar or unfamiliar, evident or invisible, all of these problems are part and parcel of modern industrialism. They are all involved in the gigantic pecuniary system which knits together

our social life. The oldest of them is with us a problem very different in form from its earlier prototype which confronted our ancestors. They are all aspects of the larger question, Can our society determine the direction of its own development?

To find an answer to such a question would involve a quest into all of life. Here we must modestly limit ourselves to a general survey of the current aspects of modern industrialism. Our procedure makes it imperative, first of all, clearly to realize that our system is developing and that in this development the various aspects of social life mutually influence each other. To that end it is well, first of all, to ask ourselves whether, or in what sense, we can control the development of industrial society. To be sure such an inquiry is a rather abstract one for the beginning of our study. But it has two distinct advantages. In the first place it gives us a large problem which can gradually be translated into more specific questions and general concepts which can little by little be given a content in the pages that follow. Second, it makes us conscious of the social importance of our task and prevents our losing sight of what we are about in a study of its details. After we have considered the problem of the control of industrial society, by inquiring into the why and how of development, the means of control we possess, and the theory of control that we are to make use of, we shall turn to a short historical account of how industrial society came to be what it is. This should serve the double purpose of illustrating the problem of control in a developing society and of revealing something of the nature of the industrial society with which we have to deal. The emphasis in this historical sketch falls appropriately upon "the antecedents of modern industrialism" and upon the series of changes which have given society its current structure and which we call "the industrial revolution." The partial control which we are to exercise over development is to come from our handling of particular problems. Accordingly we must next consider a number of somewhat different problems, always with a clear idea of their relations to each other and to the developing whole. The few which will be treated are typical of the many which confront us. These fall into two somewhat distinct groups, the first centering about the problem of the organization of industrial society, the second concerning themselves with human values and the welfare of the various groups which make up society as affected by the structure of modern industry.

The primary question in the first group is that of the mechanical perfection with which price organizes society. The problem is complicated by the rhythm of the business cycle. Associated with it is the more difficult question of whether such an organization, quite



apart from its mechanical perfection, can be made to serve the ends we would have it serve. This involves, among other things, a consideration of the extent to which, and the means by which, it can be adapted to ends outside itself, as, for instance, "the good life for all." An aspect of this larger problem of organization is the question of the extent to which the economic entity should be made to correspond to the political entity; this appears most clearly in the issues which center in the tariff. Internal problems of organization, of tremendous social consequence, particularly in the tendencies implicit in their gradual solution, are found in the regulation of railroads and capitalistic monopolies.

Of the second group of problems, perhaps the most comprehensive is that of the control of population, quantitatively and qualitatively, through immigration and through births. Its proper solution should do much to lessen the intensity of the other social problems. A second, somewhat less baffling, but still extremely difficult, is that of eliminating economic insecurity from the lot of the wageworker. A third, perhaps most evident in the program of trade unionism, is concerned with the rise of group- and class-consciousness, the spirit of group solidarity implicit in so much of the recent social legislation, and the clash between the institutional systems of individualism and of collectivism. These questions, clearly explicit before the war, have been restated in such ways that they cannot be escaped. The position of the hand worker in the industrial order and the nature and extent of the control which shall be accorded the laborer over industry and industrial processes are matters that press for intelligent solution. A great part of the change which is impending will doubtless be accomplished by the voluntary consent of the parties affected, or, at least, through other agencies of control than the government. But, despite the fact that for the moment the prestige of the state as an instrument of direction is eclipsed, and industrial matters can never be adequately dealt with by a highly centralized authority, some increase in state activity in behalf of the individual seems inevitable. This makes imperative the problem of elaborating the new fiscal policy entered upon in the last few years whose object has been the finding of new sources of revenue. Finally, whether ominous or prophetic, we need to note a rising spirit of protest which demands a radical reconstruction of our whole scheme of social life and values.

Such a quest promises no guaranteed solutions of perplexing problems. It will not yield magical formulas for disposing of the enigmas which have perplexed the generations. It will give no assurance that succeeding ages will have no baffling and bewildering questions to

disturb their peaceful repose. It will furnish no open sesame to a social Utopia. On the contrary, quite likely it will show that the perfect society is far in the future. It may even convey the dismal lesson that our limited resources will ever prevent the emancipation of the sons of Adam from bondage to social economy. But the search should yield some positive results. It should put us in position to essay further quests into particular aspects of our industrial system. It should prevent our dissipating our energies in an attempt to realize the unattainable by impossible methods. It should save us from thralldom to social and economic alchemy. Even more important, it should show us that our problems are in process of gradual solution; that they have long-time aspects much more important than the immediate issues which we see; and that vision, as well as emotion, is called for in dealing with them. Here and there, too, we should pick up bits which together we can weave into a partial and tentative program. If our quest makes this beginning, it will have served its purpose.

## B. THE NATURE OF ECONOMIC PROBLEMS

### 3. What an Economic Problem Is Like<sup>a</sup>

In this day of rapidly changing values, particularly in economic life and thought, it is difficult to determine what an economic problem is, whence it comes, what gives it currency, and whither it is going. To the end of understanding a problem aright, the following list of general characteristics is given. Here they are put down in abstract terms; the materials given in the pages that follow should enable the reader to translate them into the more tangible concepts in which he does his ordinary thinking.

The title commits this volume to the domain of *current* economic problems; but *currency* is not a mere matter of the transitory and ephemeral aspects of economic life, such as are noted in the morning paper. The most recent industrial merger, the latest bit of legislation, the court decision just announced do not mark out its province. The economic questions currently discussed and subject to immediate political action do not fix its bounds. Such things as these, distinct as they seem to be, are mere passing phases of larger and more complex problems. For their beginnings we must look into the far-distant past; their ends it is not yet vouchsafed to us to see. They are in process of gradual solution. The issues which they involve are much more intricate and subtle and much less comprehensible than their immediate aspects would seem to indicate. In form and content

<sup>a</sup>An editorial (1915, 1919).

each is closely identified with the stage of industrial development which we have reached. Each involves something of almost every phase of our complicated social life. As separate problems they are merely aspects of a larger reality. If, then, we would understand them aright, we must study them in their historical setting as incidents in the development of society.

Their essential unity makes the word *problems* in the title unfortunate. The term seems to imply the separate treatment of a number of loosely connected questions. The editor disclaims such pretentiousness in his use of it. He has no intention of presenting an aggregation of summaries from many particular fields of economic knowledge. He purports to give no epitome of a dozen different volumes discussing as many different problems. In this book he can neither make use of the methods, nor accomplish the results, of advanced study. A proper understanding of each of these problems is contingent upon a mastery of the workings of some very intricate economic machinery, a careful examination of a large amount of factual material, a painstaking analysis and interpretation of the phenomena of the field of study, and an elaboration of the conclusions drawn from it. To attempt such a task for each of the problems presented here in the space available is impossible; it would result in a mere formal presentation of half-truths. The object of this volume is of another kind; it is introductory. It attempts to present a general view of the whole as a necessary preliminary to a study of particular problems. So far as the latter are separately treated, they are presented as aspects of the larger whole.

A study of *problems* implies a search for *answers*. But, if this volume is to be judged by its ability to supply the earnest student with the *right answer* to each of the questions it discusses, it must indeed be found a dismal failure. The number of problems with which it deals precludes the detailed study which should precede the formation of "final" opinions. Besides, it is extremely doubtful whether the problems of industrial society can be settled dogmatically. As economists we can, and should perhaps, dogmatize about such principles as "the law of diminishing returns." But no economic problem can be resolved by the application of a single simple law; it is part of a situation much too complex and subtle and peculiar for that. Nor can it be made to yield to the magic that lies in a separation of all proposals into the two simple classes of the "good" and the "bad." Nor yet can its solution emerge as the result of a process of calculating resulting utilities and disutilities. Every proposal involves a distribution of costs and utilities between the present and the future, and between different classes in society. It has not one,

but many, economic consequences, good and bad. It is sure to affect in countless ways, for better or for worse, the legal, political, ethical, religious, and social aspects of life. There is no magical instrument of measurement which can unlock such a riddle by promising that a certain definite surplus of good or ill will follow the application of a given proposal. Such values are incommensurable by any known instrument of calculation.

Yet, to make judgments in the face of these complex schemes of incommensurable values is the essence of the problems which we are to discuss. If their solutions are to be advanced, if industrial society is to develop, such judgments must be made. We cannot blink the fact that every proposal advanced involves both the good and the bad, the desirable and the undesirable. We cannot forget that to get some of the good things we want, we must give up other good things; that to escape some of the costs we are unwilling to incur, we must endure others. In short, the "solution" of an economic problem involves *a choice between conflicting and incommensurable values*. The decision which it requires transcends the utmost that can be put up in any strictly economic terms; it is contingent upon nothing less than our ideal of the socially desirable. But, if our efforts are to be effective, we must aim at the attainable. We must take full account of the limitations imposed upon the "solution" of problems by contemporary activities, prevailing institutions, and the attitudes of the various classes which make up society. In view of the large economic and intellectual environment surrounding them, economic problems are not suddenly to be disposed of; definite and final answers are not to be found for them. Rather they are gradually to be solved; they must have everdeveloping answers.

Upon this theory of *a choice between conflicting and incommensurable values* the readings which follow have been selected. They come from the most miscellaneous sources. They represent all the prominent attitudes, from the most conservative to the most radical, which condition the direction of our development. They are written by men possessed of the widest variety of opinion—economic, political, and sociological. They represent emotionally as well as intellectually (for feelings count as strongly as logic in the practical affairs of our everyday world) the conflicting views and arguments which contemporary society is bringing to bear upon its problems. They contain sound argument, good judgment, truth. They contain, too, much of overstatement, fallacious reasoning, and falsehood. But all are important for, sound or unsound, true or false, they are active elements of the problems we would solve. The reader should not too definitely attempt to separate them into the "true" and the "false." All thought is conditioned by its fundamental assumptions.

Matters of personality, of class, of time, and of place manage to make their way into all intellectual work. Those who regard themselves as most immune are frequently most subject to these disturbing influences. Undoubtedly fundamental differences about economic programs frequently grow out of the possession or non-possession of the "facts." But far oftener they are due to conflicting attitudes which represent endeavors to find social good by generalizing individual interests. Some such study is necessary to a clear appreciation of the many conflicting values involved in the conscious judgments upon which the solution of our problems depend.

In quite another way, the miscellaneous character of these readings should prove valuable. They should help the reader to approach economic questions without personal or class bias; they should lead him to see that his own opinions, despite the authority of their source and their venerable age, are not necessarily the expression of economic verity; and they should induce in him some willingness to hold in abeyance his judgment on economic questions. Vital and valid arguments in support of a proposition in which one thoroughly disbelieves should do much to prevent haste in the formation of his final judgments. Even erroneous arguments have their pedagogical value. Stimulation is by provocation as well as by suggestion; and it is hoped that more than one of the readings which follow will provoke the reader into a more careful formulation of his opinions and a clearer statement of his reasons for possessing them. Above all, it is hoped that in a constructive way they may give the beginnings of a flexible and developing economic program. Its fulness can, and should, come with time, study, and reflection.

It cannot be denied that many of the readings touch upon questions which many think cannot be discussed without "danger to society"; and that others present views which "threaten to subvert our institutions." Fortunately the disposition to exclude "dangerous subjects" and "dangerous views" from academic discussion is much less pronounced than it used to be. There seems to the editor little doubt that the danger is, if not altogether absent, at least unduly magnified. To the extent that it is real, however, an injunction against discussion is not the proper method of minimizing it. The safe course lies rather in getting students to think clearly, in terms of economic situations and to recognize in this thinking the many fundamental economic values which usually fail of popular consideration. The erection of signs prohibiting trespass is the best method of enticing college students into forbidden fields of discussion. Much better is it to invite to this forbidden territory under proper guidance. It is hoped that the selections which follow will reveal some of these values and will do something to induce intelligent thought.

To the end of showing the setting of our current problems and the many conflicting values which they involve, the book has been made to consist of a large number of short readings rather than a small number of long ones. Whatever may be the value of the latter type of manual for advanced work, its usefulness in elementary instruction is largely its power of compelling labor. A small number of readings cannot at all cover the field adequately; they cannot furnish a clear perspective of the subject as a whole; they cannot introduce economic problems in their larger setting. They contain much extraneous matter; they include discussions of subtle points lost on all except advanced students; and they are prone to cause the student to lose the main issues in a world of detail. They commit the fundamental error of attempting to exhibit the particulars before the student has seen the whole. They make it difficult for the average student to discriminate between the accidental and the essential; and too frequently their use leads to a substitution of heroic clerical work for intellectual exertion. In the readings here presented an attempt has been made to eliminate the nonessential and the confusing.

This induced simplicity is not intended to convey the idea that the problems involved are simple, and that social economics is a subject which can easily be "mastered." On the contrary, few teachers will be tempted to charge this volume with an elucidation of the merely obvious. On the contrary, the very difficulty of the subjects treated makes it necessary that the many and conflicting arguments be presented as simply and definitely as possible. One of the functions of the book is to show the difficulty and complexity of the problems. Perhaps nothing is doing more to complicate the solution of our problems at the present time and to prevent the elaboration of a definite program than the belief of so many people that these same problems are simple and easily understood, and that "evils" are responsive to simple prescriptions. To convey the idea of simplicity and intelligibility, when these are not of the subject discussed, is to fail on the very threshold of economic study.

In an introductory course, the primary desideratum is not the acquisition by the student of facts and formulas, which he can hand back at examination, having no further use for them. It is rather to induce on his part a developing appreciation of the situation as a whole and of the relation of institutions and problems to each other and to it. It is more desirable that he come to understand the subject than that he amass formal knowledge about it. It is preferable that he learn to think intelligently in terms of a complex industrial situation than that he acquire a vast collection of "principles" that formally explain its working. The readings are intended to supply not factual material upon which the student can be quizzed, but

rather matter that will raise questions and provoke thought. They are intended to prepare for recitation by giving the instructor and the students something to discuss together. The function of the instructor is to direct and guide discussion, and to see that the thought of the students is intelligent and intelligible.

It is no part of the function of this volume, therefore, to lighten the instructor's labors. Ease and a shifting of responsibility can better be found in the formal lecture or in quizzing from a text. The editor believes quite firmly that the value of any course in economics is pretty much what the instructor makes it. He is the factor of vital importance. If the course is to be successful in aiding the student properly to begin the long-to-be-continued process of getting a fair conception of the economic world and of formulating an economic program, it must be the instructor's *own* course. He alone knows the factors involved in his own classroom problem. He must determine its content, fix its arrangement, and shape the tools which he uses to its peculiar need. Books, problems, and other pedagogical devices are at best but instruments. If a book of this kind has any advantage over a formal text, it is in the freedom which it allows to instructor and student, both in making the most of the recitation and in the ordering of the course. Wherever it is used, unity must come, not from the book itself, but from the teacher's own plan, and from his skillful use of the complementary tools he employs. The function of this volume is to give not leisure, but intellectual liberty.

#### 4. Experience and Theory<sup>4</sup>

BY HENRY CLAY

Everyone makes some study, more or less casual or systematic, of the subject matter of economics; and every adult has one important qualification for such study, namely, experience. It is on the basis of their experience of the present economic system that people form their judgment on its problems.

Experience, however, while it is a qualification, and an essential qualification for the study of economic problems, cannot be an adequate substitute for that specialized and systematic study of them which constitutes the science of economics. It is easy to be familiar with a thing, and even to work with it, without understanding it. The locomotive engineer can do his work excellently without knowing anything of the science of thermodynamics, and most of us succeed in spending a lifetime with our bodies without acquiring any considerable knowledge of the science of human physiology; similarly, a

<sup>4</sup>Adapted from *Economics: An Introduction for the General Reader*, pp. 6-12, 17. Copyright by Macmillan & Co., 1916; by the Macmillan Co., 1918.

man may be a good business man and yet a bad economist. The experience which any one man, or even any one social class, gains of the economic system in the course of everyday life and work is limited. So far as it goes, it is a sound basis for economic judgments; but a thorough practical acquaintance with banking would not help a man much to understand the organization of a colliery, an intimate knowledge of the building trade would not fit a man to understand, either in their private or their social aspect, the operations of a cotton-exchange broker. To find a secure basis for an understanding of the economic system it is necessary to bring together the experience of all trades and occupations, of manual worker and industrial organizer, of private industry and government service, of housewife and producer; the experience of any individual or class is too limited to give by itself anything but a limited and partial insight into the system as a whole.

Moreover, the understanding of a system that a man gains from the experience of being a part of it is more of the nature of instinct than knowledge. It enables a man to judge and act; it does not enable him to explain always how he judges and why he acts. If forced to give an explanation, the explanation may be a wrong one; copybook maxims about industry and early rising have a suspiciously large place in the explanations given by self-made men of their success; luck and a lack of scruple, though at least as important, are never mentioned. Thus the experience of people actually engaged in industry has to be subjected to their own reflection and studied from outside, to be analyzed, before it can add anything to the body of knowledge which all may share who are willing to study; treated in that way it becomes the most valuable of all sources of knowledge.

Individual experience is limited and unconscious; it has to be supplemented by economics for a more important reason. Its point of view is that of the individual, the point of view of economics is that of society. Every business transaction has more than one aspect. The individuals who are parties to it are interested chiefly in its private aspect; economics is concerned with its social aspect, which may be a different thing. Speculation, from the point of view of the individual, is the act of buying at one time and selling at another, and is justified if the selling price exceeds the buying price; from the point of view of society, it is the process by which fluctuating supplies are adjusted to a fluctuating demand, and is justified (or the reverse) by its influence on price fluctuations. To the individual it may make little difference whether he increases his profits by higher prices on a smaller output or by a larger output at lower prices; society is keenly interested to learn under what circumstances the former method is



likely to be adopted and under what circumstances the latter. There is the same difference between the two views as there is between the view of a town which a man gets from his street-door and the view he would get from an air-ship. No one, unfortunately, can lift himself into a position to take an "air-ship" view of society; so that the economists, and other students of society, have to construct their "air-ship" view of society by collecting, comparing, and relating a large number of street-door views.

The study, then, of our subject matter, in which everyone at some time or another engages, can be supplemented with advantage by the specialized and systematic study of it, which we call "economics." The latter grows out of the former, the former is the best preparation for the latter. And the method of the unconscious and unsystematic study is the method, used deliberately and consciously, by which the systematic study reaches its conclusions. That method is—to reflect; to generalize on the basis of the known facts; in the light of the generalization to collect further facts with which to test it; and by this process of testing, and by comparison with other generalizations reached by the same process, to reach a generalization which exactly fits the facts. By this method anyone who is forced by circumstances to frame an answer to some economic problem brings his experience and casually accumulated knowledge to bear upon it.

Economic theory is the body of generalizations so reached. The practical man is suspicious of "theory." His suspicion is justified, if "theory" is used as a substitute for ascertainable facts. But generalization, the making of theories, is unavoidable. Facts do not explain themselves. In some problems, the causes of trade fluctuations, for example, the multitude of facts is so great that we cannot even begin to collect them unless we collect on some plan; we shall be overwhelmed if we do not take with us to the facts some co-ordinating idea; in other words, if we do not frame a theory and take it to the facts to test it by them. On some important questions we cannot hope to enumerate all the ascertainable facts; if we wait to form our judgment, their number is so great. On other problems some decision has to be reached for purposes of action, although facts are scarce or unobtainable; taxes are often based on theories which it has been impossible to verify, the collection of the taxes subsequently eliciting the facts that are needed to verify the theories.

Again facts may be contradictory, at any rate on the surface. It is a fact that the introduction of labor-saving machinery has on many occasions displaced labor; it is also a fact that the amount of labor-saving machinery in use has steadily increased for generations without being accompanied by any corresponding increase in the propor-

tion of the population unemployed. Or the facts may bear more than one interpretation. Facts are seldom simple and usually complicated; theoretical analysis is needed to unravel the complications and interpret the facts before we can understand them.

The practical man's objection to "theory" is a valuable protest against hasty generalization on an insufficient basis of fact or on an inadequate survey of available facts. But the opposition of "facts" and "theory" is a false one; their true relation is complementary. We cannot in practice consider a fact without relating it to other facts, and the relation is a theory. Facts by themselves are dumb; before they will tell us anything we have to arrange them, and the arrangement is a theory. Theory is simply the unavoidable arrangement and interpretation of facts, which gives us generalizations on which we can argue and act, in the place of a mass of disjointed particulars. What we are seeking in our study of economic problems, whether it is a conscious and systematic study or not, are principles. We want to know what, in the operations we observe, is the rule, what is the exception; why certain arrangements are as they are, and what will happen if we change them. Unrelated facts will not answer our questions; we want chains of facts, regularities, relations of cause and effect. Like every other science, economics advances by constantly discarding generalizations which newly discovered facts have revealed as unsound or inadequate and devising new generalizations which will cover and explain the new facts.

Conscious and deliberate theorizing is necessary, because there is so much unconscious and haphazard theorizing. The man who opens a discussion by saying that he is going to "deal with facts not theories" does not mean that he is going to refrain from generalization; he usually means that he wishes to confine attention to a few facts that support his generalization, and to ignore all facts that conflict with it. The field of political controversy is strewn with hasty generalizations treated as if they were established truths, and used as the basis of argument. "Trade follows the flag," "Wages depend on the cost of living," "The present competitive system," are examples; and even more insidious are the theories of wages, profits, value, exchange, on which people base their judgment of economic problems without ever formulating them even to themselves. The time-honored "Law of Supply and Demand" has been misused so long to justify quiescence in the face of obvious evils that a natural reaction has led to the view that it can be ignored.

Not only is economics a subordinate study, but its conclusions have a temporary application only; they are not, like the conclusions of mathematics, true for all time and under all circumstances. This

is so because they aim at giving a systematic explanation of the social arrangements by which man satisfies his wants, and these arrangements are temporary and conditional. They depend very largely on the state of the physical sciences; for any sudden increase in man's control over nature would be reflected in a changed social organization. The social effects of the discovery of the use of coal as a source of power, of cheap steel, of electric communications, warn us against any attempt to forecast the future simply on a basis of the study of existing economic arrangements. The arrangements depend also on the possibilities of human nature. A religious revival, which made the motives of the early disciples the dominant motives of society, would produce a sudden rearrangement of economic institutions; and a theory of distribution which gave a true account of incomes to-day would become suddenly false.

### C. THE NATURE OF PROGRESS<sup>5</sup>

#### 5. What Is Progress?

When we say that man has advanced, or is advancing, of what lines of advance are we thinking? The lines of movement are really as numerous as are the aspects of man's nature and the activities which he puts forth. Taking his physical structure, is mankind on the whole becoming stronger, healthier, less injured by habits which depress nervous and muscular forces, and are the better stocks of men increasing faster than the inferior stocks? Considered as an acquisitive being, has man more of the things that make for comfort, more food and clothing, better dwellings, more leisure? Intellectually regarded, has he a higher intelligence, more knowledge and opportunities for acquiring knowledge, more creative capacity, more perception of beauty and susceptibility to aesthetic pleasures? Considered in his social relations, has he more personal freedom, is he less exposed to political oppression, has he fuller security for life and property, are there more or less order and concord within each community, more or less peace between nations? Lastly, is man improving as a moral being? Is there more virtue in the world, more sense of justice, more sympathy, more kindness, more of a disposition to regard the feelings and interests of others and to deal gently with the weak? In each and all of these departments there may be progress, but not necessarily the same rate of progress, and we can perfectly well imagine a progress in some points only, accompanied by a stagnation or even a decline in other points.

When we talk of the progress of the world, do we mean an ad-

<sup>5</sup>Adapted from an article in the *Atlantic Monthly*, C, 147. Copyright, 1907.

vance in all these respects, or only in some, and if so in which of them? If in all of them, which are the most typical and the most significant? Suppose there has been an advance in some, and in others stagnation or retrogression, how shall we determine which are the most important, the most fraught with promise or discouragement? An examination of the language of popular writers indicates that the current conception has been seldom analyzed. Such writers have seemed to have assumed that an improvement in some aspects of human life means an improvement in all, perhaps an improvement to something like the same extent. Another question suggests itself: Is the so-called law of progress a constant one? Suppose its action in the past to have been proved, can we count upon its continuing in the future, or may the causes to which its action has been due some time or other come to an end? I pass over other points that might be raised. It is enough to have shown in how vague a sense the current term has been used.

#### 6. Evolution or Progress?<sup>a</sup>

BY L. T. HOBHOUSE

I use the term "evolution" in regard to human society, and also the term "progress." This should imply that there is some difference between them. By evolution I mean any sort of growth; by social progress, the growth of social life in respect to those qualities to which human beings attach or can rationally attach value. Social progress, then, is only one among many possibilities of social evolution. At least it is not to be assumed that every and any form of social evolution is also a form or stage in social progress. For example, the caste system is a product of social evolution, and the more rigid and narrow the caste, the more complex the hierarchy, the more completely has the caste system evolved. But most of us would question very strongly whether it could be considered in any sense a phase of social progress. So again there is at the present day a vigorous evolution of cartels, monopolies, rings and trusts; there is an evolution of imperialism, of militarism, of socialism, of a hundred tendencies as to the good or evil of which people differ.

The fact that a thing is evolving is no proof that it is good; the fact that society has evolved is no proof that it has progressed. The point is important because under the influence of biological conceptions the two ideas are often confused, and the fact that human beings have lived under certain conditions is taken as proof of the value of those conditions, or perhaps as proving the futility of ethi-

<sup>a</sup>Adapted from *Social Evolution and Political Theory*, pp. 7-25. Copyright by the Columbia University Press, 1911.

cal ideas which run counter to evolutionary processes. Thus in a recent article I find a contemptuous reference to "the childlike desire to make things fair," which is "so clearly contrary to the order of the universe which progresses by natural selection." In this brief remark you will observe two immense assumptions, and one stark contradiction. The first assumption is that the universe progresses—not humanity, observe, nor the mass of organic beings, nor even the earth, but the universe. The second is that it progresses by natural selection, a hypothesis which has not yet adequately explained the bare fact of the variation of organic forms on the surface of the earth. The contradiction is that progress is incompatible with fairness, the basic element in all judgments of value, so that we are called upon to recognize as valuable that by which our fundamental notions of value are set at naught.

By studying certain sides of organic process people arrive at a particular hypothesis of the nature of the process. They erect this hypothesis into an universal and necessary law, and straightway call upon everyone else to acknowledge the law and conform to it in action. They do not see that they have passed from one sense of law to another, that they have confused a generalization with a command, and a statement of facts with a principle of action. They accordingly miss the starting-point from which a distinct conception of progress and its relation to human effort becomes possible. But for any useful theory of the bearing of evolution on social effort this conception is vital. We can get no light upon the subject unless we begin with the clear perception that the object of social effort is the realization of ends to which human beings can rationally attach value, that is to say, the realization of ethical ends; and this being understood, we may suitably use the term progress of any steps leading towards such realization.

Our conclusion so far is that the nature of social progress cannot be determined by barely examining the actual conditions of social evolution. Evolution and progress are not the same thing. They may be opposed. They might even be so fundamentally opposed that progress would be impossible.

Because of the influence of biological notions on social and economic thought, one phase of the Darwinian theory must be noted. The main effect of his work in the world of science was to generate the conception of the progress of organic forms by means of a continuous struggle for existence wherein those best fitted by natural endowment to cope with the surroundings would tend to survive. In our field, after Darwin, it began to be held that man, in spite of his philosophy, was still an animal, still subject to the same laws of reproduction and variation, still modifiable in the same manner by

the indirect selections of the individuals best fitted to their environment. The biological social philosopher had not to trouble himself about what was best; nor, like the social investigator, to remain in doubt as to the broadest principles regulating the life of society. On both these questions his doubts were already solved by what he had learned in biology itself. The best was that which survived, and the persistent elimination of the unfit was the one method generally necessary to secure the survival of the best. Armed with this generalization he found himself able to view the world at large with much complacency.

To him life was constantly and necessarily growing better. In every species the least fit were always being destroyed and the standard of the survivors proportionately raised. No doubt there remained in every society many features which at first sight seemed objectionable. But here again the evolutionist was in the happy position of being able to verify the existence of a soul of goodness in things evil. Was there acute industrial competition? It was the process by which the fittest came to the top. Were the losers in the struggle left to welter in dire poverty? They would the sooner die out. Were housing conditions a disgrace to civilization? They were the natural environment of an unfit class, and the means whereby such a class prepared the way for its own extinction. Was infant mortality excessive? It weeded out the sickly and the weaklings. Was there pestilence or famine? So many more of the unfit would perish. Did tuberculosis claim a heavy toll? The tubercular germs are great selectors skilled at probing the weak spots of living tissue. Were there wars and rumors of wars? War alone would give to the conquering race its due, the inheritance of the earth. In a word the only blot that the evolutionist could see upon the picture was the "maudlin sentiment" which seeks to hold out a hand to those who are down. The one sinner against progress is the man who tries to save the lamb from the wolf. Could we abolish this unscientific individual, the prospects of the world would be unclouded.

Yet, before we apply biological conceptions to social affairs, we generally suppose that the highest ethics is that which expresses the completest mutual sympathy and the most highly evolved society that in which the efforts of its members are most completely coördinated to common ends, in which discord is most fully subdued to harmony. Accordingly we are driven to one of two alternatives. Either our valuations are completely false, our notions of higher or lower unmeaning, or progress does not depend upon the naked struggle for existence. The biologist would cheerfully accept the first alternative. As we have already seen, he is disposed to tell us that we vainly seek to distort truth by importing our ethical standards. He is quite ready

to insist that we must subordinate our judgments of value to the survival test. We must judge good that which succeeds. Unfortunately for him at that stage his whole theory becomes a barren tautology. Progress now in his view results from the survival of the fittest, because progress is the process wherein the fittest survive. Again it is always the fittest who survive, because the fact of their survival proves their fitness.

### 7. The Criteria of Progress<sup>1</sup>

BY JAMES BRYCE

In our study of the supposed forward movement of mankind, let us begin with two comparatively easy lines of inquiry: the physical characteristics of the human species, and the conditions under which the species has to live; and let us see what conclusions can be reached by examining these.

Additions to the number of the human race are popularly treated as if they were an undoubted benefit. We see every nation and every community regarding its own increase as something to be proud of. But is the increase of the race any gain to the race? The population of Europe is three or four times, and that of North America twenty times, as large as it was two centuries ago. This proves that there is much more food available for the support of life, much more production of all sorts of commodities, and in particular an immense increase in the area of land used for producing food, with an improvement in the methods of extracting food from the land. So the growth of a city like Boston or Chicago proves that there has been an immense increase in industry. Men work harder, or at any rate more efficiently, and have far better appliances for production at their command.

Whether they live happier lives is another matter. It used to be said that he who made two ears of corn grow where only one ear had grown before was a benefactor to the race. Is that necessarily so? The number of men who can live off the soil is larger, but the men need not be better off. If there is more food there are also more mouths. Their lives may be just as hard, their enjoyments just as limited. Some parts of the earth are already too crowded for comfort. The notion that population is per se a benefit and a mark of progress seems to be largely a survival from a time when each tribe or city needed all the arms it could maintain, to wield sword and spear against its enemies. "As arrows in the hands of a giant, even so are young children," says the Psalmist; and when men are needed to fight against the Hittites, this is a natural reflection.

<sup>1</sup>Adapted from an article in the *Atlantic Monthly*, C, 147-56. Copyright, 1907.

It may also be due partly to an unthinking association between growth and prosperity.

Let us pass to quality. The most remarkable fact of the last few centuries has been the relatively more rapid growth of those whom we call the more advanced races, Teutonic, Celtic, and Slavonic. Nineteen centuries ago there were probably less than ten million people belonging to these three races. There are today probably over three hundred and fifty million, while the so-called backward races have increased more slowly and are now everywhere under the control of the more advanced races. In duration of life, too, there is unquestionably an improvement. Lunacy, however, is increasing. This seems to imply that there are factors in modern life which tend to breed disorders in the brain. In this connection a still more serious question arises.

The law of differentiation and improvement by means of natural selection and the survival of the fittest may reasonably be thought to have done its work during the earlier period of the history of mankind. The races which have survived and come to dominate the earth have been the stronger races; and, while strife lasted, there has always been a tendency for physical strength and intelligence to go on increasing. The upper classes in every community were always stronger and handsomer than the classes at the bottom of the scale. The birth-rate was probably higher among the aristocrats, and the chance of the survival of infants better. But in modern society the case is quite otherwise. The richer and more educated classes marry later and as a rule have smaller families than the poorer class, whose physique is generally weaker and whose intelligence is generally on a somewhat lower level. The result is that a class in which physical strength and a cultivated intelligence are hereditary increases more slowly than do classes inferior in these qualities. Fortunately, the lines of class distinction are much less sharply drawn than they were some centuries ago. The upper class is always being recruited by persons of energy and intellect from the poorer classes. Still we have here a new cause which may tend to depress the average level of human capacity.

The improvement, so far as attained, in the physical quality of mankind is largely due to such changes in its environment as the greater abundance of food and clothing, the better conditions of housing, the diffusion of property among all classes in the community. Along these lines the improvement has been extraordinary. The luxury of the rich, the comfort of the middle class, the comparative immunity of the poorer classes from famine and pestilence, have increased within the last two centuries more than they had during many preceding centuries.



Most remarkable of all has been the cause of these improvements, namely, the increase in our knowledge of natural laws and the power over natural forces which has been thereby acquired. Man has now, by comprehending Nature, become her master. These are the things which are commonly in our mind when we talk of progress. It is the wonderful gains made in these things which are visible and tangible and which affect our daily life at every turn that have struck the popular mind, and have seemed to mark, not only a long onward step, but the certainty of further advance. Material progress has seemed to sweep everything else along with it.

Whether this be so is the very question we have to consider. Does our increased knowledge and command of nature, do all those benefits and comforts which that mastery has secured, so greatly facilitate intellectual and moral progress that we may safely assume that there will be an increase in intelligence, in virtue, and in all that is covered by the word "happiness"? It seems hard not to believe it.

Certainly we see under these new conditions less anxiety, less occupation with the hard necessities of finding food and clothing. Work itself is less laborious, because more largely done by machinery. There is more leisure that can be used for the acquisition of knowledge and for setting thought free to play upon subjects other than practical. The opportunities for obtaining knowledge have been extended and cheapened. Transportation has become cheap, easy, and swift, enriching and refreshing the mind by foreign travel. Works of art are produced more abundantly. The mere increase of population and purchasing power has a favoring influence upon intellect, because there is more demand for the products of intellect and more persons employed in their production. Thus it is clear that material progress provided at least unprecedented facilities and opportunities for intellectual progress, and the quantity of intellectual activity has enormously increased.

Quality, however, must also be considered. Plato hinted that the invention of writing had weakened the powers of the human mind. We may well doubt whether the intellectual excellence of the age can be measured by the number of speeches or the amount of printed matter it produces, and whether the incessant reading of newspapers and magazines tends on the whole to strengthen the habit of thinking.

Material progress has affected the forms which intellectual activity takes and the lines of inquiry which it follows. But there is no evidence that it has done more to strengthen than to depress the intensity and originality and creative energy of intellect itself; nor have these qualities shown themselves more abundant as the population of the earth has increased. As for accomplishment intellectually, may there not be a limit to this kind of advance, and may we not be approaching that limit?

But, if it has proved difficult to say how far material progress and the diffusion and extension of knowledge have stimulated and are likely to stimulate intellectual progress, still harder is it to estimate their influence on the standard of moral excellence. What is moral progress? The ancient philosophers would have described its aim as being harmony with nature, that is, with those tendencies in man which lead him to his highest good by raising him above sense temptations. Augustine or Thomas Aquinas would have placed it in conformity to God's will to which all thoughts and passions should be attuned. Neither of these ideals had any relation to material progress, and saints would probably have thought such progress hurtful rather than helpful to the soul.

To estimate the degree in which some sins or vices have declined and others have developed, the extent to which some virtues have grown more common and others more rare; to calculate the respective ethical values of the qualities in which there has been an improvement and a decline; and to strike a general balance after appraising the worth of all these assets—this is a task on which few would care to enter. No analysis and no synthesis could make much of data so uncertain in quantity and so disputable in quality. Different virtues rise and fall, bloom and wither, as they inspire joy or command admiration.

It may, however, be suggested that there is one thing whose relation to material progress must somehow be the ultimate test of every kind of advance. It is happiness. But what is happiness? Is it pleasure? Are pleasures to be measured by a qualitative as well as a quantitative analysis? Shall we measure them by the intensity by which they are felt or by the fineness and elevation of the feeling to which they appeal? Is the satisfaction which Pericles felt in watching the performance of a drama of Sophocles greater or less than the satisfaction which one of his slaves felt in draining a jar of wine?

The comparison of our own age with preceding ages does not solve the problem. Most of us probably rejoice that we did not live in the fifth or even the seventeenth century. But can we be sure that the individual man in those centuries had a worse time than the average man now has? He was in many points less sensitive to suffering than we are, and he may have enjoyed some things more intensely. True, the fear of torment brooded like a black cloud over the minds of past generations. Yet we know that many persons look back to the Ages of Faith as ages when man's mind was far more full of peace and hope than at present.

Happiness is largely a matter of temperament, and temperament largely depends upon physiological conditions, and the physiological conditions of life are much affected by economic and social condi-

tions. How can we then determine whether the excitement and variety of modern life make for happiness?

We may seem to be better equipped for prophecy than we were, because we have come to know all the surface of the earth, and its resources, and the races that dwell thereon, and their respective gifts and capacities. But how these elements will combine and work together is a problem apparently as inscrutable as ever. The bark that carries man and his fortunes traverses an ocean where the winds are variable and the currents unknown.

## 8. Poverty or Wealth?

### a) *The Claims of Poverty*<sup>a</sup>

BY SAINT JEROME

Do you fear poverty? Christ called the poor "blessed." Are you terrified at labor? No athlete without sweat is crowned. Do you think of food? Faith fears no hunger. Do you dread the naked ground for limbs consumed with fasts? The Lord lies with you. Does the thought of unkempt locks disturb you? Your head is Christ. Does the infinite vastness of the desert affright you? In the mind walk abroad in Paradise. So often as you do this there will be no desert. Does your skin roughen without baths? Who is once washed in Christ needs not to wash again. In a word, hear the apostle as he answers: "The sufferings of the present time are not worthy to be compared with the glory which shall be revealed in us." You are too pleasure-loving, brother, if you wish to rejoice in this world and hereafter to reign with Christ!

### b) *The Claims of Wealth*<sup>b</sup>

BY FRANCIS HACKETT

I believe in materialism. I believe in all the proceeds of a healthy materialism—good cooking, dry houses, dry feet, sewers, drain pipes, hot water, baths, electric lights, automobiles, good roads, bright streets, long vacations away from the village pump, new ideas, fast horses, swift conversation, theaters, operas, orchestras, bands—I believe in them all for everybody. The man who dies without knowing these things may be as exquisite as a saint, and as rich as a poet; but it is in spite of, not because of, his deprivation.

<sup>a</sup>Adapted from *Letters*, pp. 340-420.

<sup>b</sup>Adapted from *Ireland*, p. 324. Copyright, 1918, by B. W. Huebsch.

## D. THE CONTROL OF ECONOMIC ACTIVITY

9. The Agencies of Social Control<sup>10</sup>

BY ELIZABETH HUGHES

The prominence attached to government interference with industrial enterprise has caused the other ways in which society orders, directs, and defines the efforts of individuals to be overlooked. Social control, it must be remembered, has many channels through which to spread and need confine itself at no time to the single course of overt legislation.

Group will operates most persistently and potently through the great unwritten rules and restrictions imposed by custom, which through their very familiarity often escape observation. A glance at Eastern, then at Western, civilization may serve to show by contrast how far-reaching and permeating is custom's influence upon industrial life. In eastern countries custom decrees that trades shall be hereditary; that the tools and methods used by ancestors shall continue to be used by present-day workers; and that human labor shall not be supplanted in any marked degree by machine effort, but only supplemented somewhat by it. Western civilization, on the contrary, adopts as its fetish the new rather than the old, favors development rather than stagnation—in a word, tends to make change itself customary and normal. In production machinery is extensively used, and a child may follow quite another trade than his father's, or, if he adopts his parent's calling, need not execute it in precisely the same manner. But though Western society is not stereotyped to the degree to which the social groups of the Orient are, it nevertheless shows more than traces of conservatism. Mill-owners, for example, through custom, cling to child labor; merchants determine selling prices by adding customary percentages of profit, differing greatly in different trades; the standardization of woman's dress makes little headway against the custom of frequent and radical changes in style; spring millinery is marketed in January in spite of untoward weather; extra clerks are hired at Christmas to meet the demands of those whom no society for the suppression of useless giving can deter from eleventh-hour activity in buying. It is custom which leads people to continue patronizing the dealer and the brand of goods they have formerly found satisfactory—or unsatisfactory—instead of accepting the "just-as-good" substitutes. Without the power of custom "good will" could not be capitalized as an asset, and trade-marks would not be desirable. Custom, then, does actively and potently aid in regulating industry.

<sup>10</sup>1915.

The various institutions of society epitomize forms of social control. Schools with their industrial departments in a measure supplant the older system of apprenticeship and by their vocational guidance bureaus attempt to place children in fitting occupations. The press, the pulpit, and the platform are agents for the dissemination of ideas; and, by the impression of group ideas and standards upon individuals, foster the establishment of social solidarity. Through these a society's codes of ethics find expression: exploitation of workmen, for example, is frowned upon; an opportunity for everyone is coming to be regarded as a matter of right; and it is insisted that competition shall be free and not "cut-throat."

In addition to the general ethical codes of society are the particular codes of the different professions. For instance the code of the medical profession exercises a restraining and compelling influence over many activities of its members. It is responsible alike for the custom of non-advertisement of medical services, a large amount of charity work, and a system of class prices that frequently becomes "charging what the traffic will bear." The medical man's code rules out many of the things which law permits, and stands in sharp contrast to the principles of the business man who still holds to the "eye-for-an-eye" doctrine and looks upon shrewdness and sagacity as cardinal virtues, honesty as a matter of policy, and good will as desirable private capital. He is, however, unlike the medical man, constrained to charge rich and poor a single price for his wares, thus more adequately protecting "the consumer's surplus" of the well-to-do class than it is protected from the medical fraternity. On the contrary there is no gratuitous gift to the ne'er-do-well.

Lawyers, ministers, and teachers—each in turn have their codes. The tyranny of social custom shows itself especially in the standard of living which each of the professional classes is expected to maintain. Salaries and fees must be high enough in the aggregate to make a given standard attainable with circumspect expenditure.

A man in choosing his profession adopts along with his choice an obligation to obey the ethical code society, and the particular group he has joined expects him to follow. If medicine, he must live up to the ethics of the medical profession; if law, he must obey its behests under penalty of debarment; if certain particular lines of business, he must rise or stoop to the plane of competition maintained in these lines, since nonconformity automatically excludes through business disaster those who do not conform.

He may subject himself still further to voluntary compulsion by joining a club or an association; for clubs and associations, of whatever sort they be, have in common the exercise of general control over members. The trade-unionist, for example, may not "scab"

even if he is unemployed because of a strike he did not vote for; nor may he speed up even though he can easily increase his earnings through piece-work; nor work overtime without extra pay; nor buy anything without a union label; nor print anything except on a union press. Just so the employer who has allied himself with an employers' association must uphold in relation to his laborers those principles and stipulations upon which the association has agreed. He must conduct his business less in accord with his individual will and more as the group has deemed best. Again there is the Consumers' League, whose members pledge themselves to patronize only those manufacturers who measure up to a standard set by the League and attain thereby unto an honored place on its white list and win the right to use the Consumers' label.

Enough has been said to show that government regulation is only one form of social control. In fact, it would seem as if, in a democratic society, legislation is only resorted to when there is conflict in control exerted by different groups within society at large. The more satisfactory the control by the smaller group, the less the economic or social oppression of one by another, the less the interference of society at large through law and governmental control.

#### 10. The Family as an Agency of Control<sup>11</sup>

The importance of social control lies in its performance of two functions. The first is the organization of industrial society; the second, the direction of social activities to ends that constitute progress. These results require for their accomplishment the use of a variety of institutions. So prevalent has become the habit of expressing this problem in terms of the individual and the state that we are prone to overlook the less obvious, but extremely important, agencies of control. The influences of some of these, both in holding society together and in directing its development, are far more extensive and their sanctions far more compelling than even state authority. In fact such is their power that one of the principal functions of the state has come to be forcing upon a small minority modes of action which have been developed through other agencies and which have already come to exercise a compelling influence over the majority. A single example, that of the family, will serve to show the nature and efficiency of these usually neglected agencies.

The industrial system is in general manned by adults; so we are too prone to overlook the industrial importance of children. The latter constitute an incipient industrial force; to them the management and operation of the industrial system will in course of time be

<sup>11</sup>An editorial (1915).

intrusted. How this task is performed depends to a large extent upon influences brought to bear upon them while they are still unincumbered with active industrial duties. The system demands personal efficiency; it must have workers who are capable of sustained effort. This is an acquired characteristic. The savage does not possess it; improper home influences may prevent the civilized child from acquiring it. Its acquisition is very closely associated with habits of home discipline. The common ethical standards to be applied to business dealings are also quite dependent upon the same influences. The home develops individual norms; these grow into class and social norms, which exercise over the individual vital control of actions through all-compelling imperatives and inhibitions.

Industrial efficiency likewise depends upon the proper distribution of workers among the different occupations. The decisions affecting this distribution are not always made by the heads of families, but all of them are surrounded by many and varied family influences. The preparation for entering the chosen occupations is usually made under the same influences. Since the organization of society as well as its development is contingent upon a proper distribution into occupational groups, the importance of this cannot very well be underestimated. The freedom which an individual possesses to choose and change his own occupation usually does not come to him until a time when an exercise of this freedom would be attended by losses too great to permit it.

Both the immediate welfare and the progress of society vitally depend upon the proportions between the three factors of production—land, labor, and capital. The family, more than any other institution, controls the increase in the two factors subject to increase, capital and labor. The origin of capital, as we know, is in savings. Savings are what is left of the family income when the family expenses have been met. Since the expenditure depends very largely upon family habits, the dependence of capital upon this institution is clearly seen. Family influences, too, are quite potent in inculcating habits of thrift or prodigality, thus affecting capital accumulation in the next generation.

The supply of labor is controlled through a control of the number of people. A new state, possessed of undeveloped resources, can partially control its numbers, through regulation of immigration. But such a state has least need for controlling its numbers. As the country develops, as resources are utilized, and as immigration falls off, a control of numbers becomes more and more a control of the birth-rate. No state has thus far succeeded directly in controlling the number of births. Even indirectly its influence has not been very potent. This matter has been in the past, and will be in the future

very largely, left to the family. Yet upon this question of numbers rest very vital economic considerations, including the questions of wages, standards of living, capacity for material development, etc. In brief, the forces influencing the sizes of the productive funds out of which wealth is to be increased are very largely familial.

It is often said that wants are the mainspring of economic activity; that it is the possession of wants which is responsible for our industrial system. If this is so we must remember that the wants which lead to industrial endeavor, particularly to the fullest utilization of personal productive capacities, are familial, rather than personal, wants. The beginning and end of the economic process lie in the family. It is, both directly and indirectly, one of the most potent factors in organizing society and in determining the direction of its development.

### 11. The State as an Agency of Control<sup>12</sup>

BY EDWIN CANNAN

The existence of the state and the order enforced by it makes it possible for property to play a part in organization. We might conceive a state of things where co-operation carried on under the influence of property might exist without any organized authority of government. But such a state of things has never been realized, nor is likely to be. So the state has been necessary in the past and is likely to continue to be so in the immediate future. Further, even in a society of perfectly just men it would be desirable to have some common authority to make changes when necessary. Otherwise progress would be exceedingly slow, since it would have to be imperceptible. If fast enough to be perceptible, it would seem to violate custom and would, therefore, be tabooed, in the absence of machinery for discussing reasons and passing judgment on them.

In the eighteenth century there grew up a school of thinkers who said to the governments of the time, "laissez faire" or "let alone." The more philosophical among them were influenced by the cult of nature prevalent at the time, thinking that certain institutions were natural and therefore good, while others were artificial and bad. They wanted the institutions which they thought natural let alone and the others abolished. The practical men wanted certain institutions abolished which they regarded as harmful, and did not trouble themselves to think of the others. The natural institutions of the philosophers are now seen to be nothing but slight modifications of

<sup>12</sup>Adapted from *Wealth; A Brief Explanation of the Causes of Economic Welfare*, pp. 89-95. Copyright by P. S. King & Co., 1914.



the institutions of their own time. To the practical man, the precept "*laissez faire*" never meant "leave everything alone," nor even "leave all natural things alone," but simply, "leave alone certain things which I think ought to be left alone." The practical men got their way to a considerable extent, and therefore it has become the fashion to speak of the "*laissez-faire* period." But there never was and never can be a state which practices this policy. The very establishment of the state negatives a policy of complete "let alone."

In primitive times the demand upon the authority which represents the state is constantly for the enforcement of "good old customs." When the state complies, it is not letting alone but taking an active part in the enforcement of these customs, which might otherwise fall into disuse owing to violation by interested parties. Moreover, the enforcement of these customs, coupled with neglect to enforce other customs, involves a discrimination favorable to progress. Consequently there was a large amount of "state interference" even in periods when the state seemed to do nothing except to reinforce the people's respect for custom.

The general enforcement of law and order and the facilitation of necessary and desirable changes in that law and order, though perhaps the most vital, is by no means the only important function of the state in economic organization. Separate property in land has never covered the face of any considerable country. A network of narrow strips forming the means of communication is always found outside the limits of private property. Without this reservation from private property any considerable amount of communication would be impossible. Hence provision of the means of communication has always been in the hands of the state. Where private parties build railways they are granted by the state the right of eminent domain, or the power to buy the land they need to get the required consecutive strip, even if the owners do not wish to sell. They have to pay only fair "compensation."

In modern times a number of other things have grown up which resemble the means of communication in being spread over large areas in thin lines. Water, drainage, gas and electric lighting, telegraphic and telephonic communications, require a laying of a network of wires all over the face of the world. It is constantly necessary to acquire private property for a part of this work. These things are very similar to roads, railways, and canals in many of their characteristics, and are therefore dealt with in much the same way. In helping to provide these engineering works required for the progress of invention and the thicker population in modern times, the state may be said to be arranging for a necessary supplement to the organization based on separate property.

Some kind of organization covering the whole industrial territory and armed with certain disciplinary powers is obviously necessary, and is supplied by the state; badly as it works in its earlier forms, it is never worse than the chaos which preceded it, and as time goes on it is gradually improved.

## E. THE THEORY OF LAISSEZ FAIRE

### 12. The Fundamental Law of Nature<sup>13</sup>

BY WILLIAM BLACKSTONE

As, therefore, the Creator is a being, not only of infinite power and wisdom, but also of infinite goodness, he has been pleased so to contrive the constitution and frame of humanity, that we should want no other prompter to enquire after and pursue the rule of right, but only our self love, that universal principle of action. For he has so intimately connected, so inseparably interwoven the laws of external justice with the happiness of each individual that the latter cannot be attained but by observing the former, and if the former be punctually obeyed, it cannot but induce the latter. In consequence of which mutual connection of justice and human felicity, he has not perplexed the law of nature with a multitude of abstracted rules and precepts, referring merely to the fitness or unfitness of things, as some have vainly surmised, but has graciously reduced the rule of obedience to this one paternal precept, "that man should pursue his own true and substantial happiness." This is the foundation of what we call ethics or natural law; for the several articles into which it is branched in our system amount to no more than demonstrating that this or that action tends to man's real happiness, and therefore very justly concluding that the performance of it is a part of the law of nature; or, on the other hand, that this or that action is destructive to man's real happiness, and therefore that the law of nature forbids it.

### 13. A Diatribe against Human Institutions<sup>14</sup>

BY J. J. ROUSSEAU

All things are good as their author made them, but everything degenerates in the hands of man. By man our native soil is forced to nourish plants brought from foreign regions, and one tree is made to bear the fruit of another. Man brings about a general confusion of elements, climates, and seasons; he mutilates his dogs, his horses,

<sup>13</sup>*Commentaries on the Laws of England* (1765), Book I, sec. 2.

<sup>14</sup>*Emile ou l'éducation* (1762), liv. 1.

and his slaves; he seems to delight only in monsters and deformity. He is not content with anything as Nature left it.

As things now are, a man left to himself from his birth would, in his association with others, prove the most preposterous creature possible. The prejudices, authority, necessity, example, and, in short, the vicious social institutions in which we find ourselves submerged, would stifle everything natural in him, and yet give him nothing in return. He would be like a shrub which has sprung up by accident in the middle of the highway, to perish by being thrust this way and that and trampled upon by passers-by. All our wisdom consists in servile prejudices; all our customs are but suggestions, anxiety, and constraint. Civilized man is born, lives, dies in a state of slavery. At his birth he is sewed in swaddling clothes; at his death he is nailed in a coffin; as long as he preserves the human form he is fettered by our institutions.

#### 14. A Plea against Governmental Restraints<sup>15</sup>

BY ADAM SMITH

Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of the society, which he has in view. But the study of his own advantage, naturally, or rather necessarily, leads him to prefer that employment which is most advantageous to the society.

The produce of industry is what it adds to the subject or materials upon which it is employed. In proportion as the value of this produce is great or small, so will likewise be the profits of the employer. But it is only for the sake of profit that any man employs a capital in the support of industry; and he will always, therefore, endeavor to employ it in the support of that industry of which the produce is likely to be of the greatest value, or to exchange for the greatest quantity either of money or of other goods.

But the annual revenue of every society is always precisely equal to the exchangeable value of the whole annual produce of its industry, or, rather, is precisely the same thing with that exchangeable value. As every individual, therefore, endeavors as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value, every individual necessarily labors to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting

<sup>15</sup>Adapted from *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776), Book IV, chap. ii.

it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affection, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.

What is the species of domestic industry which his capital can employ, and of which the produce is likely to be of the greatest value, every individual, it is evident, can, in his local situation, judge much better than any statesman or lawgiver can do for him. The statesman who should attempt to direct private people in what manner they ought to employ their capitals would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it.

## 15. A General Condemnation of Government<sup>10</sup>

BY WILLIAM GODWIN

Society is an ideal existence and not on its own account entitled to the smallest regard. The wealth, prosperity, and glory of the whole are unintelligible chimæras. Set no value on anything, but in proportion as you are convinced of its tendency to make individual men happy and virtuous. Benefit, by every practical mode, man wherever he exists; but be not deceived by the specious idea of affording services to a body of men, for which no individual man is the better. Individuals cannot have too frequent or unlimited intercourse with each other; but societies of men have no interests to explain and adjust, except so far as error and violence may render explanation necessary. This consideration annihilates at once the principal objects of that mysterious and crooked policy which has hitherto occupied the attention of governments.

Government can have but two legitimate purposes, the suppres-

<sup>10</sup>Adapted from *An Enquiry concerning Political Justice and Its Influence on General Virtue and Happiness* (1793), pp. 168, 514, 555, 561, 564, 575, 579.

sion of injustice against individuals within the community and the common defense against external invasion.

Legislation, that is, the authoritative enunciation of abstract or general propositions, is a function of equivocal nature and will never be exercised in a pure state of society, or a state approaching to purity, but with great caution and unwillingness. It is the most absolute of the functions of government, and government is itself a remedy that invariably brings its own evils along with it. Legislation, as it has been usually understood, is not an affair of human competence. Reason is the only legislator, and her decrees are irrevocable and uniform. The functions of society extend, not to the making, but the interpreting of law; it cannot decree, it can only declare that which the nature of things has already decreed and the propriety of which irresistibly flows from the circumstances of the case.

The true reason why the mass of mankind has so often been made the dupe of knaves has been the mysterious and complicated nature of the social system. Once annihilate the quackery of government, and the most home-bred understanding will be prepared to scorn the shallow artifices of the state juggler that would mislead him. With what delight must every well informed friend of mankind look forward to the auspicious period, the dissolution of political government, of that brute engine, which has been the only perennial cause of the vices of mankind, and which has mischiefs of various forms incorporated with substance, and not otherwise to be removed than by its utter annihilation.

#### 16. The Identity of Individual and Social Good<sup>17</sup>

BY PIERCY RAVENSTONE

Nature has implanted in every man's breast an instinct which teaches him intuitively to pursue his own happiness; and, by connecting the welfare of every part of society with that of the whole, she has wisely ordained that he shall not be able to realize his own wishes without contributing to the happiness of others.

Every man may thus safely be intrusted with the care of working out his own prosperity. It is not necessary for governments, it is therefore no part of their duty to teach to individuals what will most conduce to the success of their pursuits; they are ill-calculated for such a superintendence. All care of this sort is on their part wholly impertinent. Their functions are of quite a different nature;

<sup>17</sup>From *A Few Doubts as to the Correctness of Some Opinions Generally Entertained on the Subjects of Population and Political Economy* (1821), pp. 2-3.

to correct the vicious attachment to their own interests which too frequently induces men to seek their own apparent good by the injury of others, which would disorder the whole scheme of society, to bring about what they mistakenly consider their own happiness. To restrain, not to direct, is the true function of the government; it is the only one it is called on to perform, it is the only one it can safely execute. It never goes out of its province without doing mischief. The mischief is not always apparent, for the constitution of the patient is often sufficiently strong to resist the deleterious effects of the quackery. But it is not safe to try experiments which can do no good, merely because the strength of the patient may prevent them from being injurious.

The spirit of interference has never manifested itself so strongly as of late years. It constitutes the very essence of modern political economy. Everything is to be done by the state; nothing is to be left to the discretion of individuals. It is proposed to transfer men into a species of political nursery-ground, where the quality of plants is to be regulated with mathematical exactness, to be fitted to the capacity of the soil; where every exuberance in their shoots is to be immediately pruned away, and their branches confined within the bounds of the supporting espalier.

#### 17. A Protest against Useless Restrictions<sup>18</sup>

BY JEREMY BENTHAM

*Ashurst.*—The law of this country only lays such restraints on the actions of individuals as are necessary for the safety and good order of the community at large.

*Truth.*—I sow corn; partridges eat it, and if I attempt to defend it against the partridges, I am fined or sent to gaol: all this, for fear a great man, who is above sowing corn, should be in want of partridges.

The trade I was born to is overstocked; hands are wanting in another. If I offer to work at that other, I may be sent to gaol for it. Why? Because I have not been working at it as an apprentice for seven years. What's the consequence? That, as there is no work for men in my original trade, I must either come upon the parish or starve.

There is no employment for me in my own parish: there is abundance in the next. Yet if I offer to go there, I am driven away. Why? Because I might become unable to work one of these days, and so I must not work while I am able. I am thrown upon one parish

<sup>18</sup>From *Truth against Ashurst*, in *Works of Jeremy Bentham* (1823), V, 234.

now, for fear I should fall upon another, forty or fifty years hence. At this rate how is work ever to be got done? If a man is not poor, he won't work: and if he is poor, the law won't let him. How then is it that so much is done as is done? As pockets are picked—by stealth, and because the law is so wicked that it is only here and there that a man can be found wicked enough to think of executing it.

Pray, Mr. Justice, how is the community you speak of the better for any of these restraints? and where is the necessity of them? and how is safety strengthened or good order benefited by them?

But these are only three out of this thousand.

### 18. Opportunity

BY JOHN J. INGALLS

Master of human destinies am I!  
 Fame, love, and fortune on my footsteps wait;  
 Cities and fields I walk: I penetrate  
 Deserts and seas remote, and passing by  
 Hovel and mart and palace, soon or late  
 I knock unbidden once at every gate!  
 If sleeping wake; if feasting rise before  
 I turn away. It is the hour of fate  
 And those who follow me reach every state  
 Mortals desire, and conquer every foe  
 Save death; but those who doubt or hesitate  
 Condemned to failure, penury, and woe  
 Seek me in vain and uselessly implore.  
 I answer not, and I return no more!

## F. THE INTERPRETATION OF LAISSEZ FAIRE

### 19. The Individualistic Theory of Government<sup>10</sup>

BY JOHN STUART MILL

We have now reached the question to what objects governmental intervention in the affairs of society may or should extend. The supporters of interference have been content with asserting a general right and duty on the part of government to intervene, wherever its intervention would be useful; and when those who have been called the laissez-faire school have attempted any definite limitation of the province of government, they have usually restricted it to the protection of person and property against force and fraud; a definition to which neither they nor anyone else can deliberately adhere,

<sup>10</sup>Adapted from *Principles of Political Economy* (1848), Book V, chap. xi.

since it excludes some of the most indispensable and unanimously recognized of the duties of government.

Whatever theory we adopt respecting the foundation of the social union, and under whatever political institutions we live, there is a circle around every individual human being, which no government, be it that of one, or a few, or of the many, ought to be permitted to overstep: there is a part of the life of every person who has come to years of discretion, within which the individuality of that person ought to reign uncontrolled either by any other individual or by the public collectively. That there is, or ought to be, some space in human existence thus entrenched around, and sacred from authoritative intrusion, no one who professes the smallest regard to human freedom or dignity will call in question.

Even in those portions of conduct which do affect the interests of others, the *onus* of making out a case always lies on the defenders of legal prohibitions. It is not a merely constructive or presumptive injury to others, which will justify the interference of law with individual freedom. To be prevented from doing what one is inclined to, or from acting according to one's own judgment of what is desirable, is not only always irksome, but always tends to starve the development of some portion of the bodily or mental faculties, either sensitive or active; and unless the conscience of the individual goes freely with the legal restraint, it partakes, either in a great or in a small degree, of the degradation of slavery.

A second general objection to government agency is that every increase of the functions developing on the government is an increase of its power, both in the form of authority, and still more, in the indirect form of influence. The public collectively is abundantly ready to impose, not only its generally narrow views of its interests, but its abstract opinions, and even its tastes, as laws binding upon individuals. And the present civilization tends so strongly to make the power of persons acting in masses the only substantial power in society, that there never was more necessity for surrounding individual independence of thought, speech, and conduct, with the most powerful defences. Hence it is no less important in a democratic than in any other government, that all tendency on the part of public authorities to stretch their interference should be regarded with unremitting jealousy.

A third general objection to government agency rests on the principle of the division of labor. Every additional function undertaken by the government is a fresh occupation imposed upon a body already overcharged with duties. A natural consequence is that most things are ill done; much not done at all, because the government is not able to do it without delays which are fatal to its purpose.



I have reserved for the last place one of the strongest of the reasons against the extension of government agency. Even if the government could comprehend within itself, in each department, all the most eminent intellectual capacity and active talent of the nation, it would not be the less desirable that the conduct of a large portion of the affairs of society should be left in the hands of the persons immediately interested in them. A people among whom there is no habit of spontaneous action for a collective interest who look habitually to their government to command or prompt them in all matters of joint concern have their faculties only half developed; their education is defective in one of its most important branches. There cannot be a combination of circumstances more dangerous to human welfare than that in which intelligence and talent are maintained at a high standard within a governing corporation, but starved and discouraged outside the pale. Few will dispute the more than sufficiency of these reasons, to throw, in every instance, the burden of making out a strong case, not on those who resist, but on those who recommend government interference. *Laissez faire*, in short, should be the general practice; every departure from it, unless required by some great good, is a certain evil.

But we must now turn to the second part of our task, and direct our attention to cases, in which some of those general objections are altogether absent, while those which can never be got rid of entirely are overruled by counter-considerations of still greater importance.

Can it be affirmed, for instance, that the consumer is the most competent judge of the end? Is the buyer always qualified to judge of the commodity? The proposition can be admitted only with numerous abatements and exceptions. This is peculiarly true of those things which are chiefly useful as tending to raise the character of human beings. The uncultivated cannot be competent judges of cultivation. Those who most need to be made wiser and better usually desire it least, and if they desired it, would be incapable of finding the way to it by their own lights. In the matter of education, the intervention of government is justifiable, because the case is not one in which the interest and judgment of the consumer are a sufficient security for the goodness of the commodity. Let us now consider other cases, where, for one reason or another, governmental interference is necessary. These may be classed under several heads.

First, the individual who is presumed to be the best judge of his own interests may be incapable of judging or acting for himself; may be a lunatic, an idiot, an infant; or, though not wholly incapable, may be of immature years and judgment. In this case the foundation of the *laissez-faire* principle breaks down entirely. The person most interested is not the best judge of the matter, nor a competent

judge at all. To take an example from the peculiar province of political economy ; it is right that children, and young persons not yet arrived at maturity, should be protected, so far as the eye and hand of the state can reach, from being over-worked. Freedom of contract, in the case of children, is but another word for freedom of coercion. Education also is not a thing which parents or relatives should have it in their power to withhold.

But the classing together, for this and other purposes, of women and children, appears to me both indefensible in principle and mischievous in practice. Children below a certain age cannot judge or act for themselves, but women are as capable as men of appreciating and managing their own concerns, and the only hindrance to their doing so arises from the injustice of their present social position. If women had as absolute a control as men have over their own persons and their own patrimony or acquisitions, there would be no plea for limiting their hours of laboring for themselves, in order that they might have time to labor for the husband, in what is called *his* home. Women employed in factories are the only women in the laboring rank of life whose position is not that of slaves and drudges.

A second exception is when an individual attempts to decide irrevocably now what will be best for his interest at some future and distant time. The practical maxim of leaving contracts free is not applicable without great limitations in case of engagements in perpetuity ; and the law should be extremely jealous of such engagements.

The third exception which I shall notice has reference to the great class of cases in which the individuals can only manage the concern by delegated agency, and in which the so-called private management is, in point of fact, hardly better entitled to be called management by the persons interested, than administration by a public officer. Whatever, if left to spontaneous agency, can only be done by joint stock associations will often be as well, and sometimes better done, as far as the actual work is concerned by the state. Government management is, indeed, proverbially jobbing, careless, and ineffective, but so likewise has generally been joint-stock management.

To a fourth cause of exception I must request particular attention, it being one to which, as it appears to me, the attention of political economists has not yet been sufficiently drawn. There are matters in which the interference of law is required, not to overrule the judgment of individuals respecting their own interest, but to give effect to that judgment ; they being unable to give effect to it except by concert, which concert again cannot be effectual unless it receives validity and sanction from the law. For illustration I may advert

to the question of diminishing the hours of labor. Let us suppose that a general reduction of the hours of factory labor, say from ten to nine, would be for the advantage of the work people; that they would receive as high wages, or nearly as high, for nine hours' labor as they receive for ten. If this would be the result, and if the operatives generally are convinced that it would, the limitation, some may say, will be adopted spontaneously. I answer that it will not be adopted unless the body of operatives bind themselves to one another to abide by it. For however beneficial the observance of the regulation might be to the class collectively, the immediate interest of every individual would lie in violating it; and the more numerous those were who adhered to the rule, the more would individuals gain by departing from it.

Fifthly, the argument against government interference cannot apply to the very large class of cases, in which those acts of individuals with which the government claims to interfere, are not done by those individuals for their own interest, but for the interest of other people. This includes, among other things, the important and much agitated subject of public charity. Though individuals should, in general, be left to do for themselves whatever it can reasonably be expected that they should be capable of doing, yet when they are at any rate not to be left to themselves, but to be helped by other people, the question arises whether it is better that they should receive this help exclusively from individuals, and therefore uncertainly and casually, or by systematic arrangements, in which society acts through its organ, the state. Other cases, falling within the same general principle, are those in which the acts done by individuals, though intended solely for their own benefit, involve consequences extending indefinitely beyond them, to interests of the nation or of posterity, for which society in its collective capacity is alone able, and alone bound, to provide.

The same principle extends also to a variety of cases, in which important public services are to be performed, while yet there is no individual specially interested in performing them, nor would any adequate remuneration naturally or spontaneously attend their performance. Take for instance a voyage of geographical or scientific exploration. It may be said, generally, that anything which it is desirable should be done for the general interests of mankind or of future generations, or for the present interests of those members of the community who require external aid, but which is not of a nature to remunerate individuals or associations for undertaking it, is in itself a suitable thing to be undertaken by government.

The preceding heads comprise, to the best of my judgment, the whole of the exceptions to the practical maxim that the business of

society can be best performed by private and voluntary agency. It is, however, necessary to add that the intervention of government cannot always practically stop short at the limit which defines the cases intrinsically suitable for it. In the particular circumstances of a given age or nation, there is scarcely anything, really important to the general interest, which it may not be desirable, or even necessary, that the government should take upon itself. Even in the best state which society has yet reached it is lamentable to think how great a proportion of all the efforts and talents in the world are employed in merely neutralizing one another. It is the proper end of government to reduce this wretched waste to the smallest possible amount, by taking such measures as shall cause the energies now spent by mankind in injuring one another, or in protecting themselves against injury, to be turned to the legitimate employment of the human faculties, that of compelling the powers of nature to be more and more subservient to physical and moral good.

## 20. The Philosophy of Individualism<sup>20</sup>

BY ALBERT V. DICEY

Individualism as regards legislation is popularly connected with the name and the principles of Bentham. The ideas which underlie the Benthamite or individualistic scheme of reform may conveniently be summarized under three leading principles and two corollaries.

I. English law, as it existed at the end of the eighteenth century, had developed almost haphazard, as the result of customs or modes of thought which had prevailed at different periods. The laws had for the most part never been enacted. In order to amend the fabric of the law we must, so Bentham insisted, lay down a plan grounded on fixed principles. Legislation, in short, he proclaimed, is a science based on the characteristics of human nature, and the art of lawmaking, if it is to be successful, must be the application of legislative principles.

II. The right aim of legislation is the carrying out of the principle of utility, or, in other words, the proper end of every law is the promotion of the greatest happiness of the greatest number.

This principle is the formula with which popular memory has most closely connected the name of Bentham. Whatever objections this principle may be open to, one may with confidence assert that it is far more applicable to law than to morals, for at least two

<sup>20</sup>Adapted from *Lectures on the Relation between Law and Public Opinion in England during the Nineteenth Century*, pp. 125-49. Copyright by Macmillan & Co., 1905.

reasons: First, legislation deals with numbers and with whole classes of men; morality deals with individuals. It is obviously easier to determine what are the things which as a general rule promote the happiness of a large number of persons, than to form even a conjecture as to what may constitute the happiness of an individual. Let it be noted that the law aims not at positive happiness, but only at the creation of conditions under which it is likely that its subjects will prosper. Secondly, law is concerned primarily with external actions, and is only very indirectly concerned with motives. Morality, on the other hand, is primarily concerned with motives and feelings. But it is far easier to maintain that the principle of utility is the proper standard of right action than that it supplies the foundation on which rests the conviction of right or wrong.

Ideas of happiness, it has been objected, vary in different ages, countries, and among different classes; a legislator, therefore, gains no real guidance from the dogma that laws should aim at promoting the greatest happiness of the greatest number. To this objection there exists at least two answers. The first is that, even if the variability of men's conceptions of happiness be admitted, the concession proves no more than that the application of the principle of utility is conditioned by the ideas of human welfare which prevail at a given time in a given country. There is no reason why utilitarianism should refuse to accept this conclusion. Different laws may promote the happiness of different people. The second reply is that, as regards the conditions of public prosperity, the citizens of civilized states have, in modern times, reached a large amount of agreement. For instance, who can seriously doubt that a plentiful supply of cheap food, efficient legal protection against violence and fraud, and the freedom of all classes from excessive labor conduce to the public welfare? What man out of Bedlam ever dreamed of a country the happier for pestilence, famine, and war? Laws deal with very ordinary matters, and deal with them in a rough and ready manner. The character, therefore, of a law, may well be tested by the rough criterion embodied in the doctrine of utility.

There still exists, however, an objection that must be examined with care. Bentham and his disciples have displayed a tendency to underestimate the diversity between human beings. They have too easily accepted the notion of uniformity in ideas of happiness in different countries and different ages. This supposition has facilitated legislation, but it has led to the feeling that laws which in the nineteenth century promoted the happiness of Englishmen, must at all times promote the happiness of the inhabitants of all countries.

The foundation then of legislative utilitarianism is the combination of two convictions. The one is the belief that the end of human

existence is the attainment of happiness; the other is the assurance that legislation is a science and that the aim of laws is the promotion of human happiness.

III. Every person is in the main and as a general rule the best judge of his own happiness. Hence legislation should aim at the removal of all those restrictions on the free action of an individual which are not necessary for securing the like freedom on the part of his neighbors.

This dogma of *laissez faire* is not from a logical point of view an essential article of the utilitarian creed. A benevolent despot might enforce upon his people laws which, though they might diminish individual liberty, were likely, nevertheless, to insure the well-being of his people. Yet *laissez faire* was practically the most vital part of Bentham's doctrine. Bentham perceived that under a system of ancient customs modified by haphazard legislation, unnumbered restraints were placed on the actions of individuals, which were in no sense necessary for the safety and good order of the community at large, and he inferred at once that these restraints were evils. Consequently we have from him the eulogy of *laissez faire*. But with him and his disciples it was a totally different thing from easy acquiescence in the existing conditions of life. It was a war cry. It sounded the attack upon every restriction, not justifiable by some definite and assignable reason of utility.

From these three guiding principles of legislative utilitarianism—the scientific character of sound legislation, the principle of utility, faith in *laissez faire*—English individualists have in practice deduced the two corollaries: that the law ought to extend to the sphere and enforce the obligation of contracts; and that, as regards the possession of political power, every man ought to count for one and no man count for more than one. Each of these ideas has been constantly entertained by men who have never reduced it to a formula or carried it out to its full logical result; each of these two ideas has profoundly influenced modern legislation.

## G. THE NEW DEMAND FOR AUTHORITY

### 21. The Passing of the Frontier

BY THOMAS B. MACAULAY <sup>21</sup>

Despots plunder their subjects, though history tells them that, by prematurely exacting the means of profusion, they are in fact devouring the seed-corn from which the future harvest is to spring. Why, then, should we suppose that people will be deterred from

<sup>21</sup>Adapted from the essay on *Mill on Government*, 1828.

procuring immediate relief and enjoyment by the fear of calamities that may not be fully felt till the times of their grandchildren?

The case of the United States is not in point. In a country where the necessities of life are cheap and the wages of labor high, where a man who has no capital but his legs and arms may expect to become rich by industry and frugality, it is not very decidedly even for the immediate advantage of the poor to plunder the rich. But in countries where the great majority live from hand to mouth, and in which vast masses of wealth have been accumulated by a comparatively small number, the case is widely different. The immediate want is at particular seasons imperious, irresistible. In our own time it has steeled men to the fear of the gallows, and urged them on to the point of the bayonet. And, if these men had at their command that gallows, and those bayonets which now scarcely restrain them, what is to be expected? The better the government, the greater is the inequality of conditions; and the greater the inequality of conditions, the stronger are the motives which impel the populace to spoliation. As for America, we appeal to the twentieth century.

BY JAMES BRYCE<sup>22</sup>

America, in her swift, onward progress, sees, looming on the horizon, and now no longer distant, a time of mists and shadows, wherein dangers may be concealed whose form and magnitude she can scarcely yet conjecture. As she fills up her western regions with inhabitants, she sees the time approach when all the best land will have been occupied, and when the land under cultivation will have been so far exhausted as to yield scantier crops even to more extensive culture. Although transportation may also then have become cheaper, the price of food will rise; farms will be less easily obtained and will need more capital to work them with profit; the struggle for existence will become more severe. And while the outlet which the West now provides for the overflow of the great cities will have become less available, the cities will have become immensely more populous; pauperism, now confined to six or seven of the greatest, will be more widely spread; wages will probably sink and work will be less abundant. In fact, the chronic evils and problems of the old societies and crowded countries, such as we see them in Europe today, will have reappeared on this new soil.

BY PETER FINLEY DUNNE

"Opportunity," says Mr. Dooley, "knocks at iv'ry man's dure wanst. On some men's dures it hammers till it breaks down th' dure an' then it goes in an' wakes him up if he's asleep, an' afterwards it

<sup>22</sup>Adapted from *The American Commonwealth* (1st ed.; 1888), III, 662.

worrucks f'r him as a nightwatchman. On some men's dures it knocks an' runs away, an' on th' dures iv some men it knocks an' whin they come out it hits thim over th' head with an axe. But iv'ry wan has an opporchunity."

## 22. Laissez Faire and Freedom<sup>28</sup>

BY G. LOWES DICKINSON

MARTIN. I do really think so; because, you see, I maintain that, for most people, no real freedom exists as things now are.

STUART. How can you maintain that for a moment in the face of the facts?

MARTIN. Well, let us look at the facts, clearing our minds from cant! What do we see? Where is the freedom? Is not everybody who is working at all dependent upon the work of everybody else; must he not adjust to them his hours, his movements, his place of residence, suffer from their negligence or misfortunes, fail with their failures, or succeed with their success? How many business or professional men, to take only the freest classes, can decide on any particular day:—"I don't feel like work. It's a fine spring morning. I shall sit in the garden, or take a ride," or whatever it be that inclination may dictate. You know very well that they are driven like slaves (as you would say, if they were under government orders) to take the early train, to go to the City or the Courts, to toil all day in a close unhealthy noisy atmosphere, to return home fagged and dispirited to a late dinner, and afterwards, at the best, to fall asleep, at the worst to sit up into the small hours of the night preparing for the next day's work. "What a life! What a life!" you would cry, if a socialist government were to impose it upon them.

STUART. Because it would really be a much worse life in that case. I admit your point; I admit that in our own society almost no one is free, in the sense that he can dispose of his time as he likes. But at any rate we aren't under orders. We chose our profession in the beginning freely, and thereby chose, once for all, all its disabilities. And if we sacrifice to it all or most of our leisure and our liberty, we make that sacrifice freely, day after day, because we deliberately decide that it's worth while. It is our own judgment, our own prevision, which we obey, not somebody else's. And the difference is infinite.

MARTIN. You are not under orders, you say; and I admit it. But who are you? How many are there of you in that happy position?

<sup>28</sup>From *Justice and Liberty: A Political Dialogue*, pp. 156-59. Copyright by the McClure Co., 1908.



Need I once more labour the point that almost everybody is an employee of somebody else, under the strictest orders every day and all day, bound to fixed hours of work, to a fixed routine, in all weathers, in any state of health, under the strongest of all sanctions, the threat of starvation? And as to the free choice of occupation, have we not sufficiently illustrated how limited in practice that is for the great mass of people; and indeed, for large numbers, non-existent?

STUART. No matter, for I am going to be stiff about this; and I insist that even an ordinary unskilled labourer benefits by, and consciously enjoys, his freedom under the present régime. As a matter of fact, however dependent his position may seem to be, he takes his risks and has his chances. He gets drunk and doesn't go to work for a couple of days. He takes a holiday off without asking. He has a row with the foreman, and gets the sack. The threat of starvation does not in fact paralyse his action. If he leaves his job he may always get another elsewhere, or always thinks he may. If not, he goes on the tramp, he falls back on charity, he commits a crime and goes to prison. At every point, however narrow his limits, he does, within them, move at his own choice. And that I hold to be a priceless privilege, even for the poorest and weakest, and one which ought not to be bartered for the richest mess of pottage.

MARTIN. If you put it so, even a collectivist community could not take away that measure of freedom. If a man prefers to take the chance of starvation or prison, rather than perform his allotted work, no one can prevent him in any kind of society, other than one of literal slave-driving by the chain and the whip, which, I suppose, even you will not imagine Collectivists to contemplate. It would, I admit, be very disturbing to the Democracy which I have sketched if any considerable number of people adopted those tactics. But if they did, they must, so far as I can see, be free to do so. By doing so long enough and in sufficient numbers, they could break the society; but the society could not break them. The very most it could do would be what we now do, give them the choice of work or starvation or prison. So that that particular liberty, which I do not admire as much as you do, would persist, though I do not think it would be taken advantage of, even in a collectivist community.

### 23. *Laissez Faire in Practice*<sup>24</sup>

BY L. T. HOBHOUSE

In the main, the teaching of the school tended to a restricted view of the function of government. Government had to maintain order,

<sup>24</sup>Adapted from *Liberalism*, pp. 81-101. Copyright by Henry Holt & Co., 1911.

to restrain men from violence and fraud, to hold them secure in person and property against foreign and domestic enemies, that they might rely upon reaping where they had sown, and might enjoy the fruits of their industry.

The factory system early brought matters to a head at one point by the systematic employment of women and young children under conditions which outraged the public conscience when they became known. In the case of children it was admitted that the principle of free contract could not apply. It felt the child to be exploited by the employer in his own interest. But this principle admitted of great extension. If the child was helpless, was the grown-up person, man or woman, in a much better position? Here was the owner of a mill employing five hundred hands. Here was an operative possessed of no alternative means of subsistence seeking employment. Suppose them to bargain as to terms. If the bargain failed the employer lost one man. At worst he might have a little difficulty for a day or two in working a single machine. During the same days the operative might have nothing to eat, and might see his children going hungry. Where was the effective liberty in such an arrangement? In the matter of contract true freedom postulates substantial equality between the parties. In proportion as one party is in a position of advantage he is able to dictate the terms. In proportion as the other party is in a weak position, he must accept unfavorable terms. Hence the truth of Walker's dictum that economic injuries tend to perpetuate themselves. For purposes of legislation the state began with the child, where the case was overwhelming. It went on to include the young person and the woman. It drew the line at the adult male, and it is only within our own time that legislation has avowedly undertaken the task of controlling the conditions of industry. To this it has been driven by the manifest teachings of experience that liberty without equality is a name of noble sound and squalid result.

In place of the system of unfettered agreement contemplated the industrial system which has actually grown up and is in process of further development rests on conditions prescribed by the state. The law provides for the safety of the worker and sanitary conditions of employment. It prescribes the length of the working day for women and children. In the future it will probably deal freely with the hours for men. It makes employers liable for injuries suffered by operatives. Within these limits it allows freedom of contract.

The theory of *laissez faire* assumed that the state would hold the ring. It would suppress force and fraud, keep property safe, and aid men in enforcing contracts. In these conditions men should be absolutely free to compete with each other, so that their best energies

should be called forth. But why, on these conditions, just these, and no others? Why should the state insure protection of person and property? The time was when the strong man armed kept his goods, and incidentally his neighbor's goods too, if he could get hold of them. Why should the state intervene to do for a man that which his ancestors did, for themselves? Why should a man who has been soundly beaten in physical fight go to a public authority for redress? How much more manly to fight his own battle. Was it not a kind of pauperization to make men secure in person and property, through no efforts of their own, by the agency of a state machinery operating over their heads? Would not a really consistent individualism abolish this machinery? "But," the advocate of *laissez faire* may reply, "the use of force is criminal, and the state must suppress crime." So men held in the nineteenth century. But there was an earlier time when they did not take this view, but left it to individuals and their kinsfolk to revenge their own injuries. Was not this a time of more unrestrained individual liberty. On what principle then is the line drawn, so as to specify certain injuries which the state may prohibit and to mark off others which it must leave untouched?

Individualism as ordinarily understood not only takes the policeman and the law court for granted. It also takes the rights of property for granted. But what is meant by the rights of property? In ordinary use the phrase means just that system to which long usage has accustomed us. This is a system by which a man is free to acquire by any method of production or exchange, within the limits of the law, whatever he can of land, consumable goods, or capital; to dispose of it at his own will and pleasure for his own purposes, to destroy it if he likes, to give it away or sell it as it suits him, and at death to bequeath it to whomsoever he will. The state can take a part of a man's property by taxation. But in all taxation the state is taking something from a man which is "his," and in so doing is justified only by necessity. In many ways, in the face of actual conditions, the individualist has been driven to a change in property rights in the direction of greater social control. The school of Henry George, individualists though they be, would purge the social system of the private ownership of land. This alone, say they, will insure genuine freedom to all individuals.

Thus individualism, when it grapples with the facts, is driven no small distance toward state regulation. Once again we have found that to maintain individual freedom and equality we have to extend the sphere of social control. We cannot assume any of the rights of property as axiomatic. We must look at their actual workings and consider how they affect the life of society.

24. Criticism of Individualist Ideals<sup>25</sup>

BY C. DELISLE BURNS

In criticism of the whole tendency, one may urge that as an ideal individualism involves the neglect of the social causes and social results of action. The results of action even on one's self are really to be put to the credit not only of the agent but of the whole group. So that we must not be misled by sentimentality as to the "results of honest labor" or "the rewards of individual genius."

As action has social effects, results have social causes. The credit for earning a large income should not rest merely with the individual financier, but with the circumstances which made such earning possible; and this is only an abstract method of saying that the credit is due in part to the other individuals of the same group. The labor of the millions of poor has literally made it possible for the few to be rich not only by direct work in the production of wealth, but also in the continuous peace which alone makes it possible for the financier or the merchant to exercise his ability. We need not maintain here that a larger reward is due to those whose labor has produced the wealth in any group; for our present purpose it is sufficient to acknowledge that the united labor of the group makes wealth and no individual is an isolated cause of such wealth. Men are not isolated in working: the result of work is as much due to the many who produce as to the few who direct; and just as we cannot count precisely the value of the individual's pull when many are moving a large weight which could not be moved if each pulled singly, so we cannot fairly distribute the results of social labor by reference to the separate intelligence or strength of each.

There is always a natural impulse to look after one's interests, and although sentimentalism may indeed exaggerate our duty to our neighbor, nevertheless, in an ideal to be worked for there is more need to emphasize the social effect of our action than the effect upon ourselves. If, therefore, an ideal is to be a correction of a pernicious tendency, and the present tendency is toward selfishness and an unenlightened egoism, individualism should be opposed as giving strength to the very evil which needs most to be eradicated.

Indeed, the individualistic writers, like Mill and Sidgwick, do not really understand the egoism of the average man; their own egoism is so enlightened, their action is so intelligently governed, that they may indeed do good to the community by pursuing what they know to be their own higher interest. But, as in the case of Socrates, a per-

<sup>25</sup>Adapted from *Political Ideals: An Essay*, pp. 249-52, 258. Copyright, 1915, by the Oxford University Press.

sonal characteristic cannot be made a rule of morality. For Socrates, if he knew what was good, there was no hesitation in doing it; and so for the ideal individualist there is no exclusion of the interest of others in thinking of his own. But the majority have no such wide views, and we can hardly allow them to discover by bitter experience (generally the bitter experience of others) that their own good is best achieved by aiming at that of others. This objection to individualism therefore implies not that it is wrong, but that it is inadequate as an ideal for the present needs of a semi-civilized community.

Again individualism suffers from the "atomism" of the philosophy of the early nineteenth century. The individual is not a separate atom surrounded by a hedge of rights. In fact, all the rights of the individual are dependent upon his duties; and the exaggerations of the French Revolution as to the "rights of man" are misleading. No modern individualist, of course, would deny the social relations of every individual; but even with this proviso, individualism suffers from the unconscious metaphor of atoms. It is often supposed, even when it is not expressly stated, that we can treat the state as a mere collection of individuals. The illustration at the beginning of Hobbes's *Leviathan* is typical, since the monstrous state is there drawn as a collection of diminutive citizens.

Not that the individual should disappear; but the state or the group must be thought of as an organic whole and not an arbitrary coming together of consenting individuals. The individual, whether he wills it or not, belongs to a natural association through his family, which he may call his "nation." He has, that is to say, a character which is given all its meaning and value by the tradition into which he is born; and even if he may transfer his allegiance he cannot change his blood. The atomic individual, without race, relatives, or tradition, is an obsolete abstraction of the eighteenth century, which survived into the nineteenth century only because of the extreme fear of grandmotherly supervision.

## 25. Control as a Basis of Reform<sup>20</sup>

BY W. LYON BLEASE

The philosophical argument against social reform which has most weight is that by helping individuals the state deprives them of the disposition to help themselves, and they tend to rely more and more upon the social organization and less and less upon themselves. Everything in the way of public assistance is thus regarded with sus-

<sup>20</sup>Adapted from *A Short History of English Liberalism*, pp. 327-41. Copyright by T. Fisher Unwin, 1912.

picion. To feed school-children is to weaken parental responsibility. To raise wages by legislation is as demoralizing as to distribute doles. To offer a pension of five shillings a week in old age is to discourage thrift in youth. It is therefore better in the end that poverty should be allowed to run its course than that a misdirected benevolence should demoralize the people. This argument, reproducing the logical individualism of the Utilitarians, has been greatly strengthened by Darwinism. Herbert Spencer has thus applied the theory of evolution to political affairs.

The well-being of existing humanity, and the unfolding of it into ultimate perfection, are both secured through the same beneficent, though severe, discipline to which the animate creation at large is subject; a felicity-pursuing law which never swerves for the avoidance of partial and temporary suffering. The poverty of the incapable, the distresses that come upon the imprudent, the starvation of the idle, and those shoulderings aside of the weak by the strong, which leave so many in shallows and in miseries, are the decree of a large, far-seeing benevolence.

Yet, if there is one thing that most distinguishes modern from ancient society, and society of any kind from the disorganized existence of primitive man, it is the prevalence of the idea that we are in some measure responsible for the condition of our neighbors. If the course of past development is any guide, we may be certain that unless we take steps to alter our condition, we shall certainly continue in the same course in the future. It would be at least surprising that the salvation of the race should now be found to lie in a deliberate reaction, against the movement of countless ages, toward the state of undisciplined human egotism. A doctrine so repugnant to what we have been accustomed to regard as our better feelings requires little examination to discover its fallacies.

The evolutionary argument against social reform falls to the ground when it is once admitted that the individuals in contemplation are individuals organized in society, and that it is only so long as they are organized that development, as we understand it, can take place. If mankind were left to scramble for such good things as it could get without co-operation, the race would no doubt, in the course of time, develop such characteristics as that competition would allow to survive. But if we erect higher standards, and require, even from selfish motives, the moral, intellectual, and physical benefits which only organization, culture, and the communication of ideas will produce, the comparison between human beings and the rest of the animate creation is useless for our purpose. Some limitation of the struggle for existence is obviously needed, if we are not to fall back to the level where only the brute qualities of strength, swiftness, and cunning are of value. Once we admit the need of social organization,

which involves a very considerable check on mechanical evolution by the survival of the fittest, the only controversy is about the extent and character of the limits on competition and not about their existence.

But the argument for social reform is not based only upon the possibility of altering environment so that individuals who are unfit for it may maintain themselves as long as they live. It is not the incapable who are poor. It is not only the imprudent who are overcome by distress. It is not only the idle who starve. Bad conditions of life destroy not only the inefficient, but the efficient. He is a very dull and stupid observer who supposes that all the slovenly, debauched and criminal men and women whom he sees around him are what they are because of the innate qualities. A bad environment does not merely destroy the inefficient, it manufactures them; and it is as reasonable to oppose social reform because it prevents the elimination of the unfit, as it would be to defend excessive eating and drinking, or sitting in wet clothes. Unhealthy eating would no doubt destroy people with weak stomachs, but for every one who perished in this struggle with environment there would be ten who survived. Bad housing and bad wages produce the same results as bad habits. An ill-fed girl becomes the mother of weakly children. Casual labor kills only after it has given birth to an incalculable amount of laziness, vice, and mental disorder. The elimination of the unfit is uncertain and capricious. The deterioration of the fit is certain and remorseless. Reform is thus the only possible means for discovering what individuals are fit in the human sense. It is only when all have a chance of survival that we can distinguish between efficient and inefficient. The reformer need have no fear that his generous impulses are signs of an antisocial sentimentalism. He is, in fact, only Evolution conscious of itself.

This elaboration of social control is not inconsistent with such competition as is necessary for the development of character, and for the production of wealth which is distributed among the members of society. It is not Socialism. It removes only some of the risks of failure, and only those which are beyond individual control. No man is made less thrifty because at the age of seventy he will receive five shillings a week. No man works the better for knowing that, if he is ever ill for a month, he and his family will never be free again, or will work the worse for knowing that his home will be kept together until he is able once more to support it by his own exertions. No woman gets any virtue out of working fifteen hours a day for seven days a week, with the knowledge that even then she will not earn enough to keep herself in food and clothing without recourse to charity or prostitution, and her character will not be deteriorated when a level is fixed

below which her wages cannot fall. The benefit of competition remains. The disasters inevitably attendant on it are averted. The poorer people no longer wrestle on the brink of an unfenced precipice. We do not want to see impaired the vigor of competition, but we can do much to mitigate the consequences of failure. We want to draw a line below which we will not allow persons to live and labor. We want to have free competition upward. We do not want to pull down the structures of science and civilization; but to spread a net over an abyss. Our aim is not to abolish competition. Competition will always be powerful enough. But to limit the strife—to fix a ring around the prize-fight—to protect the vital parts from the blows of the combatants. Individual growth can only take place in competition. But it is not necessary that failure in competition should be moral. The struggle of competition is to go on. But it is not to go on to the death. Economic society is to be converted into a gigantic Trade Union, based upon the belief that the highest good of the individual can only be secured in co-operation with his fellows, and limiting his freedom only in so far as it is necessary to secure freedom to his associates.

## 26. The Individualistic Basis of Social Control<sup>27</sup>

BY THOMAS HILL GREEN

Freedom is valuable only as a means to an end. That end is the liberation of the powers of all men equally for contributions to a common good. No one has a right to do what he will with his own in such a way as to contravene that end. It is only through the guaranty society gives him that he has property at all. This guaranty is founded on a sense of common interests. Everyone has an interest in securing to everyone else the free use and enjoyment and disposal of his possession, because such freedom contributes to that equal development of the faculties of all which is the highest good for all. This is the true and only justification of the rights of property. Property being only justifiable as a means to the free exercise of the social capabilities of all, there can be no true right of property of a kind which debars one class of men from such free exercise altogether. We condemn slavery no less when it rises out of voluntary agreement on the part of the enslaved person. A contract by which anyone agreed for a certain consideration to become the slave of another

<sup>27</sup>Adapted from the "Lecture on Liberal Legislation and Freedom of Contract," *Works*, III, 372-86. Edited by R. L. Nettleship, 1880. Published by Longmans, Green & Co.



person we would reckon a void contract. Here, then, is a limitation upon freedom of contract that we all recognize as rightful. No contract is valid in which human persons are dealt with as commodities, because such contracts of necessity defeat the end for which alone society enforces contracts at all.

Are there no other contracts which, less obviously perhaps, but really, are open to the same objection? Let us consider contracts affecting labor. Labor, the economist tells us, is a commodity exchangeable like other commodities. This is in a certain sense true, but it is a commodity which attaches in a peculiar manner to the person of man. Hence restrictions may need to be placed on its sale which would be unnecessary in other cases, to prevent it from being sold under conditions which make it impossible for the person selling it ever to become a free contributor to social good in any form. This is most plainly the case where a man bargains to work under conditions fatal to health. Every injury to the health of the individual is, so far as it goes, a public injury. It is an impediment to the general freedom; so much deduction from our power, as members of society, to make the best of ourselves. Society, therefore, is plainly in its right when it limits freedom of contract for the sale of labor, so far as is done by laws for the sanitation of factories and mines.

It is equally within its right in prohibiting the labor of women and young persons beyond certain hours. If they work beyond these hours, the result is demonstrably physical deterioration, which carries with it a lowering of the moral forces of society. For the sake of the general freedom of its members to make the best of themselves, which it is the object of civil society to secure, a prohibition should be put on all such contracts of service as in a general way yield such a result. The purchase and hire of unwholesome dwellings are properly forbidden on the same principle.

Its application to compulsory education may not be quite so obvious, but it will appear on a little reflection. Without a command of certain elementary arts and knowledge, the individual in modern society is as effectually crippled as by the loss of a limb or a broken constitution. With a view to securing freedom among its members it is certainly within the province of the state to prevent children from growing up in that kind of ignorance which practically excludes them from a free career in life.

Just as labor, though an exchangeable commodity, differs from all other commodities, land, too, has its characteristics, which distinguish it from ordinary commodities. It is from the land that the raw material of all wealth is obtained. It is only upon the land that

we can live; only across the land that we can move from place to place. The state, therefore, in the interest of that public freedom which it is its business to maintain, cannot allow the individual to deal as he likes with his land to the same extent to which it allows him to deal with other commodities. It is an established principle that the sale of land should be enforced by law when public convenience requires it. The landowner of course gets the full value of the land which he is compelled to sell, but of no other ordinary commodity is the sale thus enforced. This illustrates the peculiar necessity in the public interest of putting some restrictions on a man's liberty of doing what he will with his own. The question is whether, in the same interest, further restraint does not need to be imposed on the liberty of the landowner. Should not the state for public purposes prevent the land from being tied up in a manner which prevents its natural distribution and keeps it in the hands of those who cannot make the most of it? It is so settled that at present all the land necessarily goes to the owner's eldest son. The evil effects of this system are twofold. It almost entirely prevents the sale of agricultural land in small quantities, and thus hinders that mainstay of social order, a class of small proprietors tilling their own land. It also keeps large quantities of land in the hands of men who are too much burdened by debts to improve it. The landlord in such cases has not the money to improve, the tenant has not the security which would justify him in improving. On the simple and recognized principle that no man's land is his own for purposes incompatible with the public convenience, we ask that legal sanction should be withheld from settlements which interfere with the distribution and improvement of land.

To uphold the sanctity of contracts is doubtless a prime business of government, but it is no less its business to provide against contracts being made, which, from the helplessness of one of the parties to them, instead of being a security for freedom, becomes an instrument of disguised oppression. Men are not at liberty to buy and sell when they will, where they will, and as they will. There is no right to freedom in the sale or purchase of a particular commodity, if the general result of allowing such freedom is to detract from freedom in the higher sense, from the general power of men to make the best of themselves. The danger of legislation, either in the interests of a particular class or for the promotion of particular religious opinions, we may fairly assume to be over. The popular jealousy of law is out of date.

## H. RIGHTS OLD AND NEW

## 27. The Theory of Natural Right

a) *The Declaration of Independence*<sup>28</sup>

When in the course of human events it becomes necessary for one people to dissolve the political bonds which have connected them with another, and to assume among the powers of the earth the separate and equal station to which the laws of Nature and Nature's God entitles them, a decent respect to the opinions of mankind requires that they should declare the causes which impel them to the separation.

We hold these truths to be self-evident, that all men are created equal; that they are endowed by their Creator with certain inalienable rights; that among these are life, liberty, and the pursuit of happiness. That to secure these rights, governments are instituted among men, deriving their just powers from the consent of the governed. That, whenever any form of government becomes destructive of these ends, it is the right of the people to alter or to abolish it, and to institute a new government, laying its foundations on such principles and organizing its powers in such form as shall seem to them most likely to effect their safety and happiness.

b) *The American Bill of Rights*<sup>29</sup>

I. Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech or of the press, or the right of the people peaceably to assemble and to petition the government for a redress of grievances.

II. A well-regulated militia being necessary to the security of a free state, the right of the people to keep and bear arms shall not be infringed.

III. No soldier shall, in time of peace, be quartered in any house, without the consent of the owner, nor in time of war but in a manner to be prescribed by law.

IV. The right of the people to be secure in their persons, houses, papers, and effects, against unreasonable searches and seizures, shall not be violated, and no warrants shall issue but upon probable cause, supported by oath or affirmation, and particularly describing the place to be searched, and the persons or things to be seized.

V. No person shall be held to answer for a capital or otherwise infamous crime, unless on a presentation or indictment of a grand jury, except in cases arising in the land and naval forces, or in the

<sup>28</sup>Passed by the Continental Congress. Popularly dated July 4, 1776.

<sup>29</sup>The first nine amendments to the Constitution of the United States, proposed by the first Congress on September 25, 1789, and ratified by the required three-fourths of the states during the next two years.

militia, when in actual service in time of war or public danger; nor shall any person be subject for the same offense to be twice put in jeopardy of life or limb; nor shall be compelled in any criminal case to be a witness against himself; nor be deprived of life, liberty, or property, without due process of law; nor shall private property be taken for public use without just compensation.

vi. In all criminal prosecutions, the accused shall enjoy the right to a speedy and public trial, by an impartial jury of the State and district wherein the crime shall have been committed, which district shall have been previously ascertained by law, and to be informed of the nature and cause of the accusation; to be confronted with the witnesses against him; to have compulsory process for obtaining witnesses in his favor, and to have the assistance of counsel for his defense.

vii. In suits at common law, where the value in controversy shall exceed twenty dollars, the right of trial by jury shall be preserved, and no fact tried by a jury shall be otherwise re-examined in any court of the United States, than according to the rules of the common law.

viii. Excessive bail shall not be required, nor excessive fines imposed, nor cruel and unusual punishments inflicted.

ix. The enumeration in the Constitution of certain rights shall not be construed to deny or disparage others retained by the people.

*c) Some Addenda*

xiii. Sec. 1.<sup>30</sup> Neither slavery nor involuntary servitude, except as a punishment for crime whereof the party shall have been duly convicted, shall exist within the United States, or any place subject to their jurisdiction.

xiv. Sec. 1.<sup>31</sup> All persons born or naturalized in the United States, and subject to the jurisdiction thereof, are citizens of the United States and of the State wherein they reside. No state shall make or enforce any law which shall abridge the privileges or immunities of citizens of the United States; nor shall any State deprive any person of life, liberty, or property, without due process of law; nor deny to any person within its jurisdiction the equal protection of the laws.

xv. Sec. 1.<sup>32</sup> The rights of citizens of the United States to vote shall not be denied or abridged by the United States or by any state on account of race, color, or previous condition of servitude.

<sup>30</sup>Adopted as part of the Constitution of the United States, December 18, 1865.

<sup>31</sup>The Fourteenth Amendment to the Constitution of the United States, of which the paragraph above is section 1, was declared adopted July 21, 1868.

<sup>32</sup>Adopted as part of the Constitution of the United States, March 30, 1870.

xix. The right of citizens of the United States to vote shall not be denied or abridged by the United States or by any state on account of sex.<sup>83</sup>

## 28. A Modern Bill of Rights<sup>84</sup>

We, babes threatened with being born into the world, do unanimously declare the following individual rights to be natural, inalienable, and indefeasible. We pledge ourselves, one to another, to refuse to be born into any society whose government or economic institutions denies to any individual any of these rights, to-wit:

1. The right to be born of parents of sound body and mind and into a decent home shall be denied to no one.
2. The right to the opportunities and privileges of a normal childhood shall not be withheld from any individual.
3. The right to an opportunity to have one's capacity and aptitudes developed shall be granted to everyone. Exceptional opportunities for development shall be granted to those possessed of exceptional natural gifts.
4. The right to an opportunity to contract marriage and rear a family shall be denied to no one.
5. The right to an opportunity to work at a task that gives scope to one's particular aptitudes shall be denied to no individual.
6. The right to an opportunity to earn a wage large enough to maintain a decent standard of living in a civilized community shall be denied to no one.
7. The right to adequate compensation for the human wear and tear which modern industrial processes entail shall be denied to no individual.
8. The right to leisure sufficient for personal development and for making one an intelligent member of his community shall be denied to no one.
9. The right to a full knowledge of the facts about the political and economic organization under which he lives and of the general course of events shall be denied to no one.
10. The right to the formulation of an opinion and to the merging of that in public opinion through free speech and free association shall be denied to no one.
11. The right to a share of control over the political, economic, and social institutions and agencies under which he lives shall be denied to no one.
12. The right to the opportunities essential to the living of "the good life" shall be denied to no one.

<sup>83</sup>Adopted as part of the Constitution of the United States, August 26, 1920.

<sup>84</sup>An editorial (1919).

## II

### THE ANTECEDENTS OF MODERN INDUSTRIALISM

If we are properly to understand current economic problems to the end of formulating a program for dealing with them, we must first get some impression of the present "system" from which they spring and of which they are aspects. The "system" is so much a part of our very lives and activities that we find it hard to think of it as "a" system, and are prone to view it as a part of the immutable universe itself. When active intellectual effort does point it out as only one of many systems, we often fail to see that it is in process of constant change. Clearly to understand—rather than to know—that it is only one among many possible systems and to see that it is persistently changing, even as we view it, let us try to catch a glimpse of it in process of development. In such a task we need neither general statements of the nature of its growth nor an intensive study of the "facts." Our concern is not with the past, but with the present; our interest is not in "events," but in the process. We want to see a system very unlike ours slowly giving way to the one with which we are familiar.

To that end as we read the selections below let us keep in mind the peculiar characteristics of the social "order" with which we are familiar. Among these its unity and the interdependence of its aspects are paramount. For example, the influence of the ideals of the mediaeval church upon industrial development suggests many phases of this interdependence. The selections given below on manorial and gild economy furnish material for a comparison of the spirit, values, activities, and institutions of our present system with others quite unlike it. Additional material for the same purpose is available in the selections devoted to mediaeval commercial development, policy, and theory. The readings also show that there is much in common between the social and industrial life of mediaevalism and the nineteenth century. The theory of the stewardship of wealth is to be found in modern sociology as well as in mediaeval theology; Italy in the fourteenth century faced many urban problems which are quite modern; the mediaeval artisan was familiar with the art of "soldiering"; few moderns could teach many new tricks of trade to the mediaeval craftsman; and there is more than a suggestion of a modern bill of rights in the eighteenth century document.

Quite as important is the evidence furnished by these readings of a movement toward the "modern" system. The very ideals of an unworldly church were leading toward a material and humanistic culture; priestly inhibition of usury, reinforced by superstitious stories of the torment in store for the money-lender, were increasingly impotent to remove the lure of jingling guineas promised by commercial ventures; the manor, a miniature world in itself, was losing its identity, and the gild was breaking down in the face of a wider and wider organization of industry; the commercial note of pecuniary profit was becoming more and more dominant; and the larger society was substituting the magic of price for personal relation as the means of organization. Developing society, at first unlike ours, was coming nearer and nearer to the system we know. Only the single movement of the industrial revolution was necessary to make it assume the form with which we are so familiar.

## A. THE MANOR

29. The Organization of Labor<sup>1</sup>

BY W. HASBACH

If we suppose ourselves to enter a manor of the end of the twelfth century, we shall first notice a cultivated area, having in its midst the manor-house, and near that barns, stables, and other buildings which are the dwellings of the steward and manorial servants; behind, a stretch of plowland in one continuous block. This is the home-farm. At some little distance lies the village, inhabited by the lord's tenants. They, too, hold land, but it lies, not in continuous blocks, but in strips scattered over several large fields surrounding the village. One such field will contain some dozens of strips, to be worked by various tenants. But the lord, too, often owns some of the strips, which are sown and harvested together with those belonging to the villagers; and thus his land, in many cases, consists of two parts, blocks and strips, while that of the tenants consists entirely of scattered strips on the great field.

Lord and tenants, however, were not merely bound together by neighboring ownership on the common fields, but by dues and services which had to be rendered by the latter to the former, though they were graded according to the class and holding of the tenants, who by no means formed a homogeneous mass.

Some of them were personally free; and these fell into several classes. Some, in return for their land, rendered dues of relatively small value, of the nature of a mere acknowledgment, as, for example, a pair of gloves, or a pound of wax or of pepper. Others, on the contrary, paid a not inconsiderable rent in money. Others again paid in military services, or were charged with the duty of representing the township before the royal courts. Still others rendered small services in addition to rents, due at times when more labor than usual was needed, i.e., at spring seed-time and in harvest. But very often the duties of free tenants consisted not of actual manual labor, but of superintendence.

The unfree population bore the main burden of the work to be done for the lord, which was, in the first place, agricultural labor, whether upon the home-farm or the lord's strips in the common fields, and secondly, carrying work. But the unfree tenants, again, were divided into various sections. There were the tenants of a normal holding, which consisted on an average of about thirty acres, and

<sup>1</sup>Adapted from *A History of the English Agricultural Labourer*, pp. 5-11. Published by P. S. King & Son, 1894.

there were tenants of half-holdings of say fifteen acres. Tenants of the first class, the so-called "virgaters," worked about three days a week upon the demesne, with their teams, unless they were liable to do carrying services. Tenants of the second class, or half-virgaters, did correspondingly less. But it is not to be concluded that the holdings actually remained at this typical size. The lord allowed the virgates to be divided, in fact, so long as the dues and services customarily rendered by the theoretical unit were properly performed. It should also be noticed that the services due from the tenant might be done by a suitable proxy, whether the holding were free or unfree.

Other workers, doing less for the lord than virgaters or half-virgaters, were the "bordarii" and "cottarii," who held perhaps five to two acres of land. They worked, as a rule, only one day in the week, without teams, but with hands and tools.

Lastly, there were persons in the village owning house and garden only, who obviously must have worked for wages if they were to live. The greater number of them were the village artisans—smiths, masons, carpenters, and others. For the most part, they were descendants of villagers, free or unfree, who as the population increased had been unable to find either work or maintenance on the paternal acres, but had to remain in the village until some better opportunity of earning a living offered there or elsewhere. They provided the material out of which a laboring class might be formed, and formed a reserve army of labor for the occasions of the lord of the manor.

But the freemen and villeins, at all events, were only bound by the custom of the manor to certain definite services: whereas some of the farm work needed uninterrupted attention. Hence we find on the home-farm a number of servants, from a technical point of view the successors of the slaves of earlier days. Their duties had almost exclusively to do with the live stock: they were shepherds, swineherds, foresters, dairy men and women, and also carters. They were drawn from among the villeins, and freed from the services due from them as tenants of land in villeinage so long as they were at work upon the demesne. The servants were paid in kind, chiefly by certain allowances of provisions and cloth.

Passing over the domestic servants, porters, cooks, butlers, and the like, we come to a fourth class in the manorial organization. This consisted of the persons who organized the work, supervised the laborers, noted the expenditure and receipts, kept the accounts, and so forth. The head of the manorial husbandry was the bailiff. If the lord had several manors, there was often under him, and over the various bailiffs, a seneschal or steward. Accountants appeared on the



manor from time to time. They satisfied themselves as to its financial position, made up the books from the accounts rendered by the inferior officials, and received whatever money-payments had been made and took them away. Members of the village community, however, were also concerned in the administration: There was the reeve as representative of the peasantry, there were rent collectors, and on large manors one or more messors as overseers in harvest. Such occupations were part of the services due from certain lands. But services were not all that the tenants were bound to render." There were also dues in kind to be paid, as eggs, cheese, honey, salt, fish, and fowls. Besides, on the death of an unfree father the family had to return to the lord some part of its movable goods, on the theory that the unfree man received his provision of capital from the lord. This payment was called the "heriot." And a villein's son on taking over his holding had to make a payment in proportion to the value of the land. This was the fine.

Lastly, there were various dues of the nature of rates and taxes, while the receipts of the manorial courts were not seldom an important source of income. It will be easier to understand these clearly if we remember that the lord was, in the first place, a person charged with certain public duties, who was to be paid for his services by certain definite fees. But, in the second place, he was a person with certain private rights, an owner of land and capital who received rents, services, dues in kind, heriots, and fines in return for the use of them. In the third place, he received certain payments depending on villeinage as an institution of immemorial antiquity. The villein made a payment on the marriage of his daughter. His freedom of movement was limited, and he therefore had to pay for permission to leave the manor. Without the lord's leave he might neither send his son to the university, sell cow or calf, nor cut down oak, ash, or pear tree on his holding, unless to mend his house. He could not refuse the office of a reeve, and either his eldest or youngest son must succeed him on his death.

If, however, the system of dues is to be wholly comprehensible, there is another consideration to be taken into account: namely, its historical development. Originally the tenants paid in kind. Later on, the lord acquired his own home-farm. This may have come about as some of the unfree tenants died out, and others were got rid of, justly or unjustly, and their strips on the fields fell to the lord. The remaining tenants were obliged to work them, thus adding to their dues services; and the lord found it necessary to build barns and stables in addition to the barn which held the dues brought in. He would want more servants, who originally were probably slaves. Finally, he might

have a block of land cleared for his own use, and so increase his demand for services.

Having thus described the fairly uniform foundation of the society of that day, we may in conclusion just glance at the superstructure built upon it. This gives an impression of greater variety. For the manorial lord was sometimes a knight, and sometimes a monastery or cathedral, sometimes the king himself, or one of his serjeants, or a tenant-in-chief. It was also more changeable, for by subletting one lord not seldom replaced another. Accordingly, the surplus value came to be applied to the most diverse ends. It might go to carry on a war or suppress a rebellion, to provide for feasts and tournaments, to maintain a retinue of men-at-arms, to provide hospitality for pilgrims, and great personages on their travels, or again to support a monastic institution devoted to learning and its propagation.

### 30. A Self-sufficient Economy<sup>2</sup>

BY WILLIAM J. ASHLEY

Till nearly the end of the fourteenth century England was a purely agricultural country. Such manufactures as it possessed were entirely for consumption within the land; and for goods of finer qualities it was dependent upon importation from abroad.

In the eleventh century, and long afterward, the whole country, outside the larger towns, was divided into manors, in each of which one person, called the lord, possessed certain important and valuable rights over all the other inhabitants. Let us picture to ourselves an eleventh-century manor in middle or southern England. There was a village street, and along each side of it the houses of the cultivators of the soil, with little yards around them: as yet there were no scattered farmhouses, such as were to appear later. Stretching away from the village was the arable land, divided usually into three great fields sown, one with wheat, one with oats or beans, while one was left fallow. The fields were subdivided into "furlongs"; and each furlong into acre or half-acre strips, separated, not by hedges, but by "balks" or unploughed turf; and these strips were distributed among the cultivators in such a way that each man's holding was made up of strips scattered up and down the three fields, and no man held two adjoining pieces. Each holder was obliged to cultivate his strips in accordance with the rotation of crops observed by his neighbors. There were also meadows, inclosed for hay harvest, and divided into portions by lot, or rotation, or custom, and after harvest thrown open again for the cattle to pasture upon. In most cases there was

<sup>2</sup>Adapted from *An Introduction to English Economic History and Theory*, I (1894), 5-49. Published by Longmans, Green & Co.

also some permanent pasture or wood, into which the cattle were turned, either "without stint," or in numbers proportioned to the extent of each man's holding.

The land was regarded as the property, not of the cultivators, but of a lord. It was divided into that part cultivated for the immediate benefit of the lord, the demesne or inland, and that held of him by tenants, the land in villenage, the latter being usually about two-thirds of the whole. The demesne consisted partly of separate closes, partly of acres scattered among those of the tenants in the common fields. Of the land held in villenage, the greater part was held in whole or half virgates. The virgate was a holding made up of scattered acre or half-acre strips in the three fields, with proportionate rights to meadow and pasture; and its extent, varying from sixteen to forty-eight acres, was usually thirty acres. The holders of such virgates formed an estate socially equal among themselves, and all of them were under the same obligations of service to the lord.

The principal services which the lord exacted of the villein were, first, a man's labor for two or three days a week throughout the year, known as week work, or daily works, and second, additional labor for a few days at spring and autumn ploughing and at harvest. On such occasions the lord demanded the labor of the whole family, with the exception of the housewife. Besides these, there were usually small quarterly payments to be made in money, and miscellaneous dues in kind, so many hens and eggs, and so many bushels of oats at different seasons; as well as miscellaneous services, of which the most important is carting. During the boon days it was usual for the lord to feed the laborers.

The fundamental characteristic of the manorial group, regarded from the economic point of view, was its self-sufficiency, its social independence. The same families tilled the village fields from father to son. Each manor had its own law courts for the maintenance of order. Then as now, every village had its own church; with this advantage or disadvantage, that the priest did not belong to a different social class from his parishioners. The village included men who carried on all the occupations and crafts necessary for everyday life. There was always a water or windmill which the tenants were bound to use, paying dues which formed a considerable part of the lord's income. Many villages had their own blacksmith and carpenter, probably holding land on condition of repairing the ploughs of the demesne and the villagers.

Thus the inhabitants of an average English village went on, year in, year out, with the same customary methods of cultivation, living on what they produced, and scarcely coming in contact with the outside world. The very existence of towns, indeed, implied that the

purely agricultural districts produced more than was required for their own consumption; and corn and cattle were regularly sent, even to distant markets. But the other dealings of the villages with the outside world were few. First, there was the purchase of salt, an absolute necessity in the mediaeval world, where people lived on salted meat for five months in the year. Second, iron was continually needed for the ploughs and other farm implements. Third, when a fresh disease, the scab, appeared among the sheep, tar became of great importance as a remedy. Perhaps the only other recurring need, which the village could not itself supply, was that of millstones.

Such were the chief characteristics of the manorial group as a whole self-sufficiency and corporate unity. Let us look at the position of the individual members in the group. Some had risen to the position of free tenants, but the great majority had continued to hold by servile tenure. Of the position of this great majority the characteristic was permanence, with its disadvantages and also with its advantages.

It is instructive to compare the village as we have seen it with the village of today. In one respect there might seem to be a close resemblance. Then, as usually now, the village was made up of one street, with a row of houses on either side. But the inhabitants of the village street now are the laborers and artisans with one or more small shopkeepers. The farmers live in separate homesteads among the fields they rent, and not in the village street. Then all the cultivators of the soil lived side by side. Second, notice the difference as to the agricultural operations themselves. Now each farmer follows his own judgment in what he does. But the peasant-farmer of the period we have been considering was bound to take his share in a common system of cultivation, in which the time at which everything should be done and the way in which everything should be done was regulated by custom. A further difference is seen in the relations of lord and tenant as to the cultivation. Nowadays either the landlord does not himself farm any land in the parish, or his management of it is independent of the cultivation of any other land by tenants. But then almost all the labor on the demesne was furnished by the villein tenants, who contributed ploughs, oxen, and men. Compare finally the classes in the manor, with those in the village today. In a modern parish there will usually be a squire, some three or four farmers, and beneath them a comparatively large number of agricultural laborers. But in the mediaeval manor, much the greater part of the land was cultivated by small holders. Between the lord of the manor and the villein tenants there was, indeed, a great gulf fixed. But there was nothing like the social separation of classes of actual cultivators that exists today.

It may be well to note the nonexistence in the village group of certain elements which modern abstract economics is apt to take for granted. Individual liberty, in the sense in which we understand it, did not exist; consequently there could be no complete competition. The payments made by the villeins were not rents in the abstract economist's sense: for the economist assumes competition. The chief thought of lord and tenant was, not what the tenant could possibly afford, but what was customary. Finally, there was as yet no capital in the modern sense. Of course there was capital in the sense in which the word is defined by economists, "wealth appropriated to reproductive employment," for the villeins had ploughs, harrows, oxen, horses. But this is one of the most unreal of economic definitions. As has been well said, by capital we mean more than this; we mean a store of wealth that can be directed into new and more profitable channels as occasion arises. In this sense the villeins had no capital.

### 31. Property and Service on the Manor<sup>a</sup>

Let us institute a brief comparison between the modern industrial system and a simple agricultural system, such as existed in Europe in the Middle Ages and still survives in many respects in those lands from which the greater part of our industrial labor comes. Such a comparison will serve the double purpose of showing the dependence of the problem upon our peculiar organization of industry and of revealing the difficulties of adjustment to a new situation by a laborer fresh from such a simple industrial environment.

In such an agricultural system the position of the laborer was and was not of his own making. It was not in the sense that he was born into a social class, a family, and a fixed industrial position. It was in the sense that his living was pretty much what he through his own efforts made it. By birth it became his privilege and obligation to cultivate a certain plot of ground, to gather his harvest of grain, to pay a fixed rent in kind to his "lord," and to keep the balance for himself. This opportunity he could not surrender; from it he could not be dispossessed. It was for others to dream of fame, of fortune, of position, of prestige; he was established in a world that knew little change. For him no complicated nexus of a price scheme stood between his efforts and his reward. The price at which he sold his services and the prices at which he purchased goods did not have to be considered. For him the sun and the rain, rather than market conditions, his strength and intelligent application, rather than his bargaining ability, determined the measure of his material welfare. In a very real sense he received all that he produced above the fixed rental.

<sup>a</sup>An editorial (1916, 1925).

It is confusing to think of the lord of the manor as an "owner" and the villein or serf as a laborer. The employment relation between worker and overlord rested upon a scheme so different from modern "property" and "contract" that they seem quite queer to us. The "lord" was an owner in the sense that the title was vested in him, that he had general supervision of the land, and that he received a "rent." But he possessed only some of the "equities" which make up the extremely complex institution of "property ownership." He could not employ whom he pleased to work on his land; he could not dictate to the laborers the technique which they should employ; he could not raise rents; and he could not dispossess those who cultivated his land. Clearly some of the equities of ownership belonged to the laborer. In like manner the laborer owned some of the equities in his own labor: when and how he should work was in general left to him; he enjoyed the bountiful harvest which came from his diligent efforts. But certain of the equities of his labor were enjoyed by the lord: on special occasions he had to give of his labor without stint, he could not insist upon lowering his rent, he could not free himself from his "job." Because of these peculiar property arrangements the lord and laborer, the man and his "job," were inseparably linked in a permanent scheme. No consent of either party, no "contract" was necessary to bring them together; custom had accomplished that, and once for all.

It follows that many of the current forms of economic insecurity did not attach to the worker's position. The failure of a bargain never left him without employment. No radical change in technique, in volume of business, or in prices, rendered his store of technical skill a worthless possession, and left him a "man without a job." Industrial accident had few terrors in a society that used blunt plows and patient oxen. The seasonal round of work was not in itself injurious to the workman's health and spirits; for the tyranny of the almanac is less severe than that of the clock. If the frugality of his life made consumption quite monotonous, there was at least the compensating advantage of absence of monotony in production. The equities in property gave even some security for old age as well as assurance that the premature death or disability of the head of the family would not rob children of their opportunity.

Like all others the system possessed both insecurity and waste. The former was manifest in the clash of group against group, the raid of a rival group, and the reiterated appearance of flood, drought, and fire. The stern reality of these things make famine, nakedness, and lack of shelter more than vague dreams. But the insecurity was communal rather than individual; it had its root in the exigencies likely to befall production rather than in the vicissitudes of a price

system. The latter was manifest in the monotony of the industrial and social system. The lack of variety in goods and services, in occupations and professions, gave little chance for the development of any but a few of the resources of mind and body latent in the population. A narrow caste system, which made opportunity very largely a matter of birth, failed completely in utilizing and conserving the talents of the masses.

To such a simple environment it was easy for the individual to adapt his life. There was no complicated scheme of prices to cloud and bewilder his judgment. The industrial relations of laborer and master were dictated by custom and required no conscious choice. As a consequence laborers did not live a transitory life, being here today and there tomorrow. They belonged to permanent communities and enjoyed a high degree of neighborhood life. Through this the perplexities which were still left in the simple environment was minimized by a set of convictions, religious, industrial, political, and social which prescribed quite rigidly the life which the individual should lead. They were in reality a collection of conventional formulas, revealing the experience of the community for generations as to how things should be done. They were quite sufficient for such ordinary matters as fixing the standard of living, giving moral instruction to the young, inculcating in them habits of industry, and giving them the technical training for the occupations into which they were expected to enter. With these as guides, the individual was not likely to go seriously astray in adapting his life and activities to his environment. If the tyranny of community standards placed a discount upon individual initiative and novelty, if it seriously interfered with the development of culture, it at least permitted the individual to rationalize his activities in terms of the system of which he was a part.

## B. THE GILD

### 32. Wage Work and the Handicraft System<sup>4</sup>

BY CARL BUCHER

When the land owned by a family becomes divided up and no longer suffices for its maintenance, a part of the rural population begins to produce for the market. At first the necessary raw material is gained from *their* own land or drawn from the communal forests; later on, if need be, it also is purchased. All sorts of allied productions are added; and thus there develops an endlessly varied system of peasant industry on a small scale.

<sup>4</sup>Adapted from *Industrial Evolution*, pp. 162-72. Translated from the third German edition by S. Morley Wickett. Copyright by Henry Holt & Co., 1900.

But the evolution may take another course, and an independent professional class of industrial laborers arises and with them the industrial system of wagework. Whereas all industrial skill has hitherto been exercised in close association with property in land and tillage, the adept house-laborer now frees himself from this association, and upon his technical skill founds for himself an existence that gradually becomes independent of property in land. But he has only his simple tools for work; he has no business capital. He therefore always exercises his skill upon raw material furnished him by the producer of the raw material, who is at the same time the consumer of the finished product.

Here two distinct forms of this relationship are possible. In one case the wageworker is taken temporarily into the house, receives his board and, if he does not belong to the place, his lodging as well, together with his daily wage; and leaves when the needs of his customer are satisfied. We may designate this whole industrial phase as that of itinerancy, and the laborer carrying on work in this manner as an itinerant. The dressmakers and seamstresses whom our women are accustomed to take into their houses may serve as an illustration. On the other hand the wageworker may have his own place of business, and the raw material be given out to him. For working it up he receives a piecework wage. In the country the miller and the baker working for a wage are examples. We will designate this form of work home work. It is met with chiefly in industries that demand permanent means of production, difficult to transport. Both forms of work are still very common in all parts of the world. The system can be traced in Babylonian temple records; it can be followed in literature from Homer down through ancient and mediaeval times to the present day. These two forms of wagework have different origins. Itinerant labor is based upon the exclusive possession of aptitude for a special kind of work, home work upon the exclusive possession of fixed means of production. Upon this basis there arise all sorts of mixed forms between home work and wagework. The itinerant laborer is at first an experienced neighbor whose advice is sought in carrying out an important piece of work, the actual work, however, still being performed by members of the household. Even later it is the practice for the members of the customer's family to give the necessary assistance to the craftsman. In the case of home work the latter tradesman is at first merely the owner of the business plant and technical director of the production, the customer doing the actual work. This frequently remains true in the country today with oil-presses, flax-mills, and cider-mills.

From the economic point of view the essential feature of the



wagework system is that there is no business capital. Neither the raw material nor the finished industrial product is for its producer ever a means of profit. The character and extent of the production are still determined in every case by the owner of the soil, who produces the raw material; he also superintends the whole process of production. From the sowing of the seed until the moment the bread is consumed the product has never been capital, but always a mere article for use in course of preparation. No earnings of management and interest charges or middleman's profits attach to the finished product, but only wages for work done.

Under certain social conditions this is a thoroughly economic method of production. It secures the excellence of the product and the complete adjustment of supply to demand. But it forces the consumer to run the risk attaching to industrial production, as only those needs that can be foreseen can find suitable and prompt satisfaction, while a sudden need must always remain unsatisfied. The system has also many disadvantages for the wageworker. Among these are the inconveniences and loss of time suffered in his itinerancy from place to place; also the irregularity of employment, which leads, now to the overwork, now to the complete idleness, of the workman.

In the Middle Ages wagework greatly facilitated the emancipation of the artisan from serfdom and feudal obligations, as it required practically no capital to start an independent business. It is a mistake still common to look upon the class of gild handicraftsmen as a class of small capitalists. It was in essence rather an industrial laboring class, distinguished from the laborers of today by the fact that each worked not for a single employer but for a large number of consumers. The supplying of the material by the customer is common to almost all mediaeval handicrafts; in many instances, indeed, it continued for centuries, even after the customer had ceased to produce the raw material himself and must buy it. The furnishing of the raw material by the master is a practice that takes slow root; at first it holds only for the poorer customers; but later for the wealthy as well. Thus arises handicraft; but alongside it wagework maintains itself for a long time.

All the important characteristics of handicraft may be summed up in the single expression custom production. It is the method of sale that distinguishes this industrial system from all later ones. The handicraftsman always works for the consumer of his product, whether it be that the latter by placing separate orders affords the occasion for the work, or the two meet at the weekly or yearly market. As a rule the region of sale is local. The customer buys at

first hand, the handicraftsman sells to the actual consumer. This assures a proper adjustment of supply and demand and introduces an ethical feature into the whole relationship; the producer in the presence of the consumer feels responsibility for his work.

With the rise of handicraft a wide cleft appears in the process of production. Hitherto the owner of the land has conducted the whole process; now there are two classes of economic activity, each of which embraces only a part of the process of production, one producing the raw material, the other the manufactured article. Handicraft endeavored to bring it about that an article should pass through all its stages of production in the same workshop. In this way needed capital is diminished and frequent additions to price avoided.

The direct relationship of the handicraftsman and the consumer of his products made it necessary that the business remain small. Whenever any one line of handicraft threatens to become too large, new handicrafts split off from it and appropriate part of the sphere of production. This is the mediaeval division of labor, which continually creates new and independent trades.

Handicraft is a phenomenon peculiar to the town. Peoples which, like the Russians, have developed no real town life, know likewise no national handicraft. This also explains why, with the formation of large centralized states and unified commercial territories, handicraft was doomed to decline.

### 33. Ordinances of the Gild Merchant of Southampton<sup>5</sup>

1. In the first place, there shall be elected from the Gild Merchant, and established, an alderman, a steward, a chaplain, four skevins, and an usher. And it is to be known that whosoever shall be alderman shall receive from each one entering into the Gild fourpence; the steward, twopence; the chaplain, twopence; and the usher, one penny. And the Gild shall meet twice a year: that is to say, on the Sunday next after St. John the Baptist's day, and on the Sunday next after St. Mary's day.

2. And when the Gild shall be sitting no one of the Gild is to bring in any stranger, except when required by the alderman or steward.

3. And when the Gild shall sit, the alderman is to have, each night, so long as the Gild sits, two gallons of wine and two candles, and the steward the same; and the four skevins and the chaplain,

<sup>5</sup>Adapted from University of Pennsylvania, *Translations and Reprints from the Original Sources of European History*, Vol. II, No. 1, "English Towns and Gilds" (about 1300), pp. 12-17.

each of them one gallon of wine and one candle, and the usher one gallon of wine.

4. And when the Gild shall sit, the lepers of La Madeleine shall have of the alms of the Gild, two sesters of ale, and the sick of God's House and of St. Julian shall have two sesters of ale. And the Friar's Minors shall have two sesters of ale and one sester of wine. And four sesters of ale shall be given to the poor wherever the Gild shall meet.

5. And when the Gild is sitting, no one who is of the Gild shall go outside of the town for any business, without the permission of the steward. And if any one does so, let him be fined two shillings, and pay them.

6. And when the Gild sits, and any gildsman is outside of the city so that he does not know when it will happen, he shall have a gallon of wine, if his servants come to get it.

9. And when a gildsman dies, his eldest son or his next heir shall have the seat of his father, or of his uncle, if his father was not a gildsman, and of no other one; and he shall give nothing for his seat. No husband can have a seat in the Gild by right of his wife, nor demand a seat by right of his wife's ancestors.

10. And no one has the right or power to sell or give his seat in the Gild to any man.

19. And no one in the city of Southampton shall buy anything to sell again in the same city, unless he is of the Gild Merchant or of the franchise. And if anyone shall do so and is convicted of it, all which he has so bought shall be forfeited to the king.

20. And no one shall buy honey, fat, salt herrings, or any kind of oil, or millstones, or fresh hides, or any kind of fresh skins, unless he is a gildsman; nor keep a tavern for wine, nor sell cloth at retail, except in market or fair days; nor keep grain in his granary beyond five quarters, to sell at retail, if he is not a gildsman; and whoever shall do this and be convicted shall forfeit all to the king.

21. No one of the Gild ought to be partner or joint-dealer in any of the kinds of merchandise before mentioned with anyone who is not of the Gild, by any manner of coverture, or art, or contrivance, or collusion, or in any other manner.

23. And no private man nor stranger shall bargain for or buy any kind of merchandise coming into the city before a burgess of the Gild Merchant, so long as the gildsman is present and wishes to bargain for and buy this merchandise.

24. And anyone who is of the Gild Merchant shall share in all merchandise which another gildsman shall buy or any other person, whoever he is, if he comes and demands part and is there where the

merchandise is bought, and also if he gives satisfaction to the seller and gives security for his part.

63. No one shall go out to meet a ship bringing wine or other merchandise coming to the town, in order to buy anything, before the ship be arrived and come to anchor for unloading; and if any one does so and is convicted, the merchandise which he shall have bought shall be forfeited to the king.

#### 34. Ordinances of the White Tawyers<sup>6</sup>

In honor of God, of Our Lady, and of All Saints, and for the nurture of tranquillity and peace among the good folks the Megucers, called white-tawyers, the folks of the same trade have, by assent of Richard Lacer, Mayor, and of the Aldermen, ordained the points under-written.

In the first place, they have ordained that they will find a wax candle, to burn before Our Lady in the Church of Allhallows, near London wall.

And if any one of the said trade shall depart this life, and have not wherewithal to be buried, he shall be buried at the expense of their common box. And when any one of the said trade shall die, all those of the said trade shall go to the vigil, and make offering on the morrow.

Also, that no one of the said trade shall induce the servant of another to work with him in the said trade, until he has made a proper fine with his first master, at the discretion of the said overseers, or of four reputable men of the said trade. And if any one shall do to the contrary thereof, or receive the serving workman of another to work with him during his term, without leave of the trade, he is to incur the said penalty. Also, that no one shall take for working in the said trade more than they were wont heretofore.

#### 35. Preamble to the Ordinances of the Gild of the Tailors, Exeter<sup>7</sup>

To the worship of God and of our Lady Saint Mary, and of St. John the Baptist, and of all Saints: These be the Ordinances made and established of the fraternity of craft of tailors, of the city of Exeter, by assent and consent of the fraternity of the craft aforesaid gathered there together, for evermore to endure.

<sup>6</sup>Adapted from University of Pennsylvania, *ibid.* (fourteenth century), pp. 23-25.

<sup>7</sup>Adapted from University of Pennsylvania, *ibid.* (1466), p. 26.

36. Articles of the Spurriers of London<sup>8</sup>

In the first place—that no one of the trade of Spurriers shall work longer than from the beginning of day until curfew rang out at the Church of St. Sepulchre, without Newgate; by reason that no man can work so neatly by night as by day. And many persons of the said trade, who compass how to practice deception in their work, desire to work by night rather than by day; and then they introduce false iron, and iron that has been cracked, for tin; and also they put gilt on false copper, and cracked. And further—many of the said trade are wandering about all day, without working at all at their trade; and then when they have become drunk and frantic, they take to their work, to the annoyance of the sick, and all their neighborhood, as well by reason of the broils that arise between them and the strange folk who are dwelling among them. And then they blow up their fires so vigorously, that their forges begin all at once to blaze to the great peril of themselves and of all the neighborhood around. And then, too, all the neighbors are much in dread of the sparks, which so vigorously issue forth in all directions from the mouths of the chimneys in their forges. By reason thereof it seems unto them that working by night should be put an end to, in order such false work and such perils to avoid: and, therefore, the Mayor and the Aldermen do will, by the assent of the good folks of the said trade, and for the common profit, that from henceforth such time for working, and such false work made in the trade, shall be forbidden.

37. Mediaeval Tricks of Trade<sup>9</sup>

BY BERTHOLD VON REGENSBURG

The first are ye that work in clothing, silks, or wool or fur, shoes or gloves or girdles. Men can in nowise dispense with you; men must needs have clothing; therefore should ye so serve them as to do your work truly; not to steal half the cloth, or to use other guile, mixing hair with your wool or stretching it out longer, whereby a man thinketh to have gotten good cloth, yet thou hath stretched it to be longer than it should be, and maketh a good cloth into worthless stuff. Nowadays no man can find a good hat for thy falsehood; the rain will pour down through the brim into his bosom. Even such deceit is there in shoes, in furs, in curriers' work; one man sells an old skin for a new, and how manifold are thy deceits no man knoweth so well as thou and thy master the devil.

<sup>8</sup>Adapted from University of Pennsylvania (1345), *op. cit.*, pp. 21-22.

<sup>9</sup>Adapted from a thirteenth-century sermon, translated in Coulton, *A Mediaeval Garner*, pp. 348-54. Published by Constable & Co., London.

The second folk are such as work with iron goods. They should all be true and trustworthy in their office, whether they work by the day or by the piece. When they labor by the day, they should not stand all the more idle that they may multiply the days at their work. If thou laborest by the piece, then thou shouldest not hasten too soon therefrom, that thou mayest be rid of the work as quickly as possible, and that the house may fall down in a year or two. Thou shouldest work at it truly, even as it were thy own. Thou smith, thou wilt shoe a steed with a shoe that is naught; and the beast will go perchance a mile thereon when it is already broken, and the horse may go lame, or a man be taken prisoner, or lose his life. Thou art a devil and an apostate.

The third are such as are busied with trade; we cannot do without them. They bring from one kingdom to another what is good cheap there, and whatever is good cheap beyond the sea they bring to this town, and whatever is good cheap here they carry over the sea. Thou, trader, shouldest trust God that He will find thee a livelihood with true winnings. Yet now thou swearest so loudly how good thy wares are, and what profit thou givest the buyer thereby; more than ten or thirty times takest thou the names of the saints in vain—God and all His saints, for wares scarce worth five shillings! That which is worth five shillings thou sellest, maybe, sixpence higher than if thou hadst not been a blasphemer of our Lord, for thou swearest loud and boldly: "I have been already offered far more for these wares": and that is a lie. And if thou wilt buy anything from simple folk, thou turnest all thy mind to see how thou mayest get it from them without money, and weavest many lies before his face; and thou biddest thy partner go to the fair also, and goest then a while away and sayest to thy partner what thou wilt give the man for his wares, and biddest him come and offer less. Then the simple country fellow is affrightened, and will gladly see thee come back. "Of a truth," thou sayest, "by all the saints, no man will give thee so much for this as I!" Yet another would have given more.

The fourth are such as sell meat and drink, which no man can disregard. Wherefore it is all the more needful that they shouldst be true and honest therein; for other deceit dealeth only with earthly goods, but this deceit with a man's body. If thou offerest measly or rotten flesh that thou hast kept so long until it be corrupt, then art thou guilty perchance of one man's life, perchance of ten. Or if thou offerest flesh that was unwholesome before the slaughter, or unripe of age, which thou knowest well and yet givest it for sale, so that folk eat it into their clean souls which are so dear a treasure to Almighty God, then dost thou corrupt the noble treasure which

God hast buried in every man; thou art guilty of the blood of these folk. The same say I of him who selleth fish. So are certain inn-keepers and cooks in the town, who keep their sodden flesh too long, whereof a guest eateth and falleth sick thereafter for his life long. So also do certain others betray folk with corrupt wine or mouldy beer, unsodden mead, or give false measure, or mix water with the wine. Certain others, again, bake rotten corn to bread, whereby a man may lightly eat his own death; and they salt their bread which is most unwholesome.

The fifth folk are such as till the earth for wine or corn. They should live truly toward their lords and toward their fellows, and among each other; not plough one over the other's landmark, nor trespass nor reap beyond the mark, nor feed their cattle to another's harm, nor betray their fellows to the lord. Ye lords, ye deal sometimes so ill with your poor folk, and can never tax them too high; ye would fain ever tax them higher and higher. Thou boor, thou bringest to the town a load of wood that is all full of crooked billets beneath; so sellest thou air for wood! And the hay thou layest so cunningly on the wagon that no man can profit thereby; thou art a right false deceiver.

The sixth folk are all that deal with medicine, and these must take great heed against untruth. He who is no good master of that art, let him in no wise undertake it, or folks' blood will be upon his head. Take heed, thou doctor, and keep thyself from this as thou lovest the kingdom of heaven. We have murderers enough without thee to slay honest folk.

So are some men deceivers and liars like the craftsmen. The shoemaker sayeth, "See, there are two most excellent soles," and he hath burned them before the fire. And the baker floods his dough with yeast, so that thou hath bought mere air for bread. And the huxter pours sometimes beer or water into his oil; and the butcher will sell calves' flesh at times, saying: "It is three weeks old," and it is scarce a week old.

### C. MEDIAEVAL ECONOMIC THEORY

#### 38. The Classic Statement of the Organic Nature of Society<sup>10</sup>

BY ST. PAUL

For as the body is one, and hath many members, and all the members of that one body, being many, are one body: so also is Christ. For by one Spirit are we all baptized into one body, whether we be Jews or Gentiles, whether we be bond or free; and have been all made to drink unto one Spirit. For the body is not one member, but

<sup>10</sup>From I Cor. 12:12-31.

many. If the foot shall say, Because I am not the hand, I am not of the body; is it therefore not of the body? And if the ear shall say, Because I am not the eye, I am not of the body; is it therefore not of the body?

If the whole body were an eye, where were the hearing? If the whole were hearing, where were the smelling? But now hath God set the members every one of them in the body, as it hath pleased him. And if they were all one member, where were the body? But now they are many members, yet but one body. And the eye cannot say unto the hand, I have no need of thee: nor again the head to the feet, I have no need of you.

Nay, much more those members of the body, which seem to be more feeble, are necessary. And those members of the body which we think to be less honorable, upon these we bestow more abundant honor; and our uncomely parts have more abundant comeliness. For our comely parts have no need: but God hath tempered the body together, having given more abundant honor to that part which lacked: that there should be no schism in the body; but that the members should have the same care one for another. And whether one member suffer, all the members suffer with it; or one member be honored, all the members rejoice with it.

Now ye are the body of Christ, and members in particular. And God hath set some in the church, first apostles, secondarily prophets, thirdly teachers, after that miracles, then gifts of healing, helps, governments, diversities of tongues. Are all apostles? are all prophets? are all teachers? are all workers of miracles? have all the gifts of healing? do all speak with tongues? do all interpret? But covet earnestly the best gifts: and yet show I unto you a more excellent way.

### 39. The Gospel of Stewardship<sup>11</sup>

BY THOMAS AQUINAS

Exterior goods have the character of things useful to an end. Hence human goodness in the matter of these goods must consist in the observation of a certain measure as is done by a man seeking to have exterior riches in so far as they are necessary to his life according to his rank and condition. And, therefore, sin consists in exceeding this measure, and trying to acquire or retain riches beyond the due limit.

Covetousness may involve immoderation in two ways: in one way immediately as to the receiving or keeping of them, when one acquires or keeps beyond the due amount; and in this respect it is directly a

<sup>11</sup>Adapted from *Summa Theologica*, Quaest, CXVIII; LXXIX, art. 1, vi et viii (1265-1274).



sin against one's neighbor, because in exterior riches one cannot have superabundance without another being in want, since temporal goods cannot be simultaneously possessed by many. The other way is in interior affections, in immoderate love, or desire of, or delight in, riches. In this way it is a sin of man against himself by the disordering of his affection. It is also a sin against God by the despising of eternal good for temporal.

The Philosopher says: "It belongs to the magnanimous man to want nothing or hardly anything." This, however, must be understood in human measure, for it is beyond the condition of man to have no wants at all. For every man needs first of all the divine assistance, and secondly also human assistance, for man is naturally a social animal, not being self-sufficient for the purpose of life.

Magnanimity regards two objects, honor as its matter, and some good deed in view as its end. Goods of fortune co-operate to both these objects. For honor is paid to the virtuous, not by the wise only, but by the multitude. Now the multitude make most account of the external goods of fortune; consequently greatest honor is paid by them to those who have these things. In like manner goods of fortune serve as instruments to acts of virtue, because by riches there is opportunity for action. Clearly the goods of fortune contribute to magnanimity. Virtue is said to be self-sufficient, because it can exist even without these external goods; nevertheless, it needs these external goods to have more of a free hand in its working.

Solicitude for temporal things is unlawful if we seek temporal things as our final goal. Temporal things are subject to man that he may use them for his necessity, not that he may set up his rest in them, or be idly solicitous about them.

#### 40. The Usurer's Fate<sup>12</sup>

BY CAESARIUS OF HEISTERBACH

In the days when Oliver was Master of Schools at Cologne (as I was told by Brother Bernhard, who was then Oliver's colleague and fellow-preacher), there was a certain peasant named Gottschalk who busied himself with usury. As he slept one night beside his wife, he heard as it were the sound of a mill-wheel turning in his own mill; whereupon he cried for his servant, saying, "Who hath let the mill-wheel loose? Go and see who is there." The servant went and came back, for he was too sore afraid to go farther. "Who is there?" cried the master. "Such horror fell upon me at the mill-door," answered the fellow, "that I must perforce turn back." "Well!" cried he, "even

<sup>12</sup>Adapted from *Dialogus Miraculorum* i. 70. Translation in Coulton, *A Mediaeval Garner*, pp. 212-15. (About 1250.)

though it be the devil, I will go and see." So, naked as he was, but for a cloak which he threw over his shoulders, he opened the mill-door and looked in, when a sight of horror met his eyes. There stood two coal-black horses, and by their side an ill-favored man as black as they, who cried, "Quick! mount the horse, for he is brought for thee." When, pale and trembling, he hesitated to obey, the devil cried again, "Why tarriest thou? Cast aside thy cloak and come." No longer able to resist, he cast off his cloak, entered the mill, and mounted the horse—or rather the devil. The Fiend himself mounted another; and, side by side, they swept in breathless haste from one place of torture to another, wherein the wretched man saw his father and mother in miserable torments. There also he saw a certain knight lately died seated on a mad cow with his face toward her tail and his back to her horns; the beast rushed to and fro, goring his back every moment so that the blood gushed out. To him the usurer said, "Why suffer you this pain?" "This cow," replied the knight, "I tore mercilessly from a certain widow; wherefore, I must now endure this merciless punishment." Moreover, there he was shown a burning fiery chair, wherein could be no rest, but torment and interminable pain to him who sat there. And it was said, "Now shalt thou return to thy own house, and thou shalt have thy reward in this chair." The Fiend brought him back and laid him in the mill, half-dead. Here he was found by his wife and family, who brought him to bed, and asked where he had been. "I have been to hell," he answered, "where I saw such and such tortures." The priest was called, who warned him to repent of his sins, saying that none should despair of God's mercy. He answered, "I cannot confess. My seat is made ready; after the third day I must come thither, and there must I receive the reward of my deeds." And thus unrepentant, unconfessed, and unanointed he died on the third day and found his grave in hell. It is scarce three years since these things came to pass.

#### 41. Usury vs. the Boycott<sup>18</sup>

If any of those who are setting out are bound by oath to pay interest, we command that their creditors shall be compelled by the same means to release them from their oaths and to desist from the exaction of interest. But if any creditor shall compel them to pay interest, we order that he shall be forced, by a similar punishment, to pay it back.

We command, however, that the Jews shall be compelled by the secular power to remit interest. Until they remit it, all faithful Chris-

<sup>18</sup>Adapted from *Mansi, Conciliorum Collectio*, XXXII, 1057. This is an enumeration of the privileges granted the Crusaders by Innocent III (1215).

tians shall, under penalty of excommunication, refrain from every species of intercourse with them. For those, moreover, who are unable at present to pay their debts to the Jews, the secular princes shall provide by a useful delay, so that after they begin their journey they shall suffer no inconvenience from interest. The Jews shall be compelled, after deducting the necessary expenses, to count the income which they receive in the meanwhile from the mortgaged property toward the payment of the principal; since a favor of this kind, which defers the payment and does not cancel the obligation, does not seem to cause great loss.

#### 42. The Attitude of the Church toward Commerce<sup>14</sup>

BY WILLIAM J. ASHLEY

The teaching of the gospel as to worldly goods had been unmistakable. It had repeatedly warned men against the pursuit of wealth, which would alienate them from the service of God and choke the good seed. It had in one striking instance associated spiritual perfection with the selling of all that a man had that he might give it to the poor. It had declared the poor and hungry blessed, and had prophesied woes to the rich. Instead of anxious thought for the food and raiment of the morrow, it had taught trust in God; instead of selfish appropriation of whatever a man could obtain, a charity which gave freely to all who asked. And in the members of the earliest Christian church it presented an example of men who gave up their individual possessions, and had all things in common.

We cannot wonder that, with such lessons before them, a salutary reaction from the self-seeking of the pagan world should have led the early Christian Fathers totally to condemn the pursuit of gain. It took them further—to the denial to the individual of the right to do what he liked with his own, even to enjoy in luxury the wealth he possessed. "What injustice is there in my diligently preserving my own, so long as I do not invade the property of another?" "Shameless saying!" says S. Ambrose. "My own, sayest thou? what is it? from what secret places hast thou brought it into this world? When thou enterest into the light, when thou camest from thy mother's womb, what wealth didst thou bring with thee? That which is taken by thee, beyond what would suffice to thee, is taken by violence. Is it that God is unjust, in not distributing to us the means of life equally, so that thou shouldst have abundance while others are in want? It is the bread of the hungry thou keep-est, it is the clothing of the naked thou lokest up; the money thou

<sup>14</sup>Adapted from *An Introduction to English Economic History and Theory* (1894), I, 126-32. Copyright by Longmans, Green & Co.

burliest is the redemption of the wretched." To seek to enrich one's self was not, simply, to incur spiritual risk to one's own soul; it was in itself unjust, since it aimed at appropriating an unfair share of what God had intended for the common use of men. If a man possessed more than he needed, he was bound to give his superfluity to the poor; for by natural law he had no personal right to it; he was only a steward of God.

If, however, to seek to enrich one's self was sinful, was trade itself justifiable? This was a question which troubled many consciences during the Middle Ages. On the one hand the benefits which trade conferred on society could not be altogether overlooked, nor the fact that with many traders the object was only to obtain what sufficed for their own maintenance. On the other hand they saw that trade was usually carried on by men who had enough already, and whose chief object was their own gain: "If covetousness is removed," urges Tertullian, "there is no reason for gain, and, if there is no reason for gain, there is no need of trade." Moreover, as the trader did not seem himself to add to the value of his wares, if he gained more for them than he had paid, his gain, said S. Jerome, must be another's loss; and in any case, trade was dangerous to the soul, since it was scarcely possible for a merchant not sometimes to act deceitfully. To all these reasons was added yet another. The thought of the supreme importance of saving the individual soul, and of communion with God, drove thousands into the hermit life of the wilderness, or into monasteries; and it led even such a man as Augustine to say that "business" was in itself an evil, for "it turns from seeking true rest, which is God."

In the eleventh century began a great moving of the stagnant waters. The growth of towns, the formation of merchant bodies, the establishment of markets—even if they did no more than furnish the peasant and the lord of the manor with a market for their surplus produce—brought men face to face with one another as buyer and seller in a way they had not been before. Hence economic questions, especially such as concerned the relations of seller and buyer, of creditor and debtor, became of the first importance. To deal with these new questions a new jurisprudence presented itself,—the jurisprudence based on the revived study of Roman law. The Roman law, in the finished form in which the codification of Justinian presented it, rested on a theory of absolute individual property which was entirely alien to the usages of early Teutonic peoples, among whom community of ownership, or at any rate community in use, was still a prevalent custom; and it recognized an unlimited freedom of contract, which may have been suitable to the active commerce of the Mediterranean, but was sure to be the in-

strument of injustice when appealed to in the midst of more primitive social conditions.

With these new dangers before them, churchmen began once more to turn their attention to economic matters, and to meet what they regarded as the evil tendencies of the Roman law, "The principle of the world," by a fresh application of Christian principles. On two doctrines especially did they insist—that wares should be sold at a just price, and that the taking of interest was sinful. They enforced them from the pulpit, in the confessional, in the ecclesiastical courts; and by the time that the period begins of legislative activity on the part of the secular power, these two rules had been so impressed on the consciences of men that Parliament, municipality, and gild endeavored of their own motion to secure obedience to them.

#### 43. The Control of Industry in the Gild Period<sup>15</sup>

BY L. F. SALZMANN

Broadly speaking, the control of industry may be said to be either external, by parliamentary or municipal legislation, or internal, by means of craft gilds. These two sections again admit of subdivision according as their objects are the protection of the consumer, the employer, or the workman. Nor can we entirely ignore legislation for purpose of revenue—subsidies and customs.

If a large number of parliamentary enactments were protective of the producer, as for instance the prohibition in 1463 of the import of a vast variety of goods from silk ribbands to dripping-pans, and from razors to tennis balls, including such incompatibles as playing-cards and sacring bells, yet still more were they protective of the consumer. For one thing, of course, a single act prohibiting certain imports might protect a dozen classes of manufacturers, while the denunciation of one particular species of fraud would probably lead ingenious swindlers to invent a succession of others, each requiring a separate act for its suppression. Sentimental admirers of the past are likely to imagine that the mediaeval workman loved a piece of good work for its own sake and never scamped a job. Nothing could be farther from the truth. The mediaeval craftsman was not called a man of craft for nothing! He had no more conscience than a plumber, and his knowledge of ways that are dark and tricks that are vain was extensive and peculiar. The subtle craft of the London bakers, who, while making up their customer's dough, stole a large portion of the dough under their customers' eyes by means of a little trap-door in the kneading board and a boy sit-

<sup>15</sup>Adapted from *English Industries in the Middle Ages* (1913), pp. 200-237.

ting under the counter, was exceptional only in its ingenuity. Cloth was stretched and strained to the utmost and cunningly folded to hide defects, or a length of bad cloth would be joined on to a length of superior quality; inferior leather was faked up to look like the best, and sold at night to the unwary; pots and kettles were made of bad metal which melted when put on the fire, and everything that could be weighed or measured was sold by false measure.

From the customer's point of view the regulation of prices was perhaps the most important problem. The price of raw material was too dependent upon supply and demand to admit of much regulation. The local authorities, civic and manorial, took constant measures to prevent the artificial enhancement of what we may call raw foodstuffs, corn, fish, and meat, the "regrator and forestaller," that is to say, the middleman who intercepted supplies before they reached the market and forced the prices up for his own sole benefit, being universally regarded as a miscreant. The economists of that period had not grasped the fact that the cleverness shown in buying an article cheap and selling the same thing without any further expenditure of labor, dear, if done on a sufficiently large scale, justifies the bestowal of the honor of knighthood or a peerage. In the case of manufactured foodstuffs, such as bread and ale, the price was automatically fixed by the price of the raw material, and in general prices of manufactures were regulated by the cost of the materials. The principle that the craftsman should be content with a reasonable profit and not turn the casual needs of his neighbors to his own benefit is constantly brought out in local regulations.

The question of prices, which were thus so largely composed of a varying sum for material, and a fixed sum for workmanship, is very intimately connected with the question of wages. The mediaeval economist seems to have accepted the Ruskinian theory that all men engaged in a particular branch of trade should be paid equal wages. There were, of course, grades in each profession, as master or foreman, workman, and assistant or common laborer, but within each grade the rate of payment was fixed. Wages were at all times paid on the two systems of piecework and time, and the hours were, as a rule, long. For the building trade at Beverley in the fifteenth century work began in summer at 4:00 A.M. and continued until 7:00 P.M.; at 6:00 A.M. there was a quarter of an hour's interval for refreshment, at 8:00, half an hour for breakfast, at 11:00 an hour and a half to dine and sleep, and at 3:00 half an hour for further refreshment. During the winter months the builders worked from dawn till dusk, with half an hour for breakfast at 9:00 o'clock, an hour for dinner at noon, and a quarter of an hour's interval at 3:00. Wages, of course, when paid by the day, varied in winter and sum-

mer. But, against the long hours, we have to set off the comparative frequency of holidays.

For the protection of the consumer a very thorough system of search or inspection was established. The search of weights and measures, provisions, cloth, and tanned leather usually belonged to the mayor or equivalent borough officer, or in county districts to the manorial lord, but usually with other manufactures, and very often in the case of cloth and leather, the mayor deputed the duty of search to members of the craft guilds elected and sworn for that purpose. They could inspect the wares either in the workshops or when they were exposed for sale, and seize any badly made articles. The forfeited goods were either burnt or given to the poor, and the offending craftsman fined, set in the pillory, or, if an old offender, banished from the town. To facilitate tracing the responsibility for bad work, weavers, fullers, hatters, metal-workers, tile-makers, and other craftsmen, including bakers, were ordered to put their private trademarks on their wares. This process must have been much simplified by the custom so prevalent of segregating or localizing the trades, so that the goldsmiths dwelt in one quarter, the shoemakers in another, etc.

As the trades were kept each to its own district, so was the craftsmen restricted to his own trade. By a law issued in 1364 artificers were obliged to keep to one "mystery" or craft, an exception being made in favor of women acting as brewers, bakers, carders, spinners, and workers of wool and linen and silk—the versatility of woman, the "eternal amateur," being thus recognized some five centuries and a half before Mr. Chesterton rediscovered it. Later statutes forbade shoemakers, tanners, and curriers to infringe on each other's province. The general tendency was to keep trades, and more especially the allied trades, separate, in order presumably to avoid the growth of "combines" and monopolies. For this reason fishmongers and fishermen were forbidden to enter into partnership in London, because the dealers, knowing the needs of the city, would be able to manipulate supplies and keep up prices.

How far the desire to restrict output was at the bottom of regulations forbidding the employment of more than a strictly limited number of apprentices and journeymen, and how far such prohibitions were inspired by fear of the monopolization of labor by capitalists it is difficult to say. Probably the dread of the capitalist was the chief incentive for such regulations, which are very numerous. The same principle of fair play between employers led to the ordaining of heavy penalties for taking away another man's servant, or employing any journeyman who had not fulfilled his engagement with his previous master, and to the strict prohibition of paying more

than the fixed maximum wages. This last provision was sometimes got over by the master's wife giving his servant extra gratuities and gifts. So also the use of the cheap labor of women was as a rule regarded with disfavor. The fullers of Lincoln were forbidden to work with any woman who was not the wife or maid of a master, and the "bracers" or makers of braces, of London, in 1355, laid down "that no one shall be so daring as to set any woman to work in his trade, other than his wedded wife or his daughter." Of child labor we hear very little, one of the few notices being an order on the children's behalf made, suitably enough, by Richard Whittington, in 1398, that whereas some "hurlers" (makers of fur caps) send their apprentices and journeymen and children of tender age down to the Thames and other exposed places, amid horrible tempests, frosts, and snows, to scour caps, to the very great scandal of this city, this practice is to cease at once.

Too much attention must not be given to the quarrelsome side of the guilds, for they were essentially friendly societies for mutual assistance. One of the rules of the London leather-dressers was that if a member should have more work than he could complete and the work was in danger of being lost, the other members should help him. A still more essential feature of the guilds was their grant of assistance to members who had fallen ill or become impoverished through no fault of their own. Nor did their benevolence end with the poor craftsman's death, for they made an allowance to his widow and celebrated masses for the repose of his soul.

#### 44. Solidarity in the Mediaeval Town<sup>10</sup>

Town and guild ordinances furnish abundant evidence of a spirit of social solidarity animating industrial legislation which is quite foreign to the modern point of view. There was a determined attempt on the part of the authorities to prevent "regrating," or buying to sell again at a higher price; "forestalling," or outwitting fellow-dealers by purchasing goods before they came into open market; and "engrossing," or the modern cornering the market. Guild documents are replete with statutes the purpose of which was to secure to the consumer the use of the best raw materials, the exercise of care and skill on the part of the workman, and full measure. While instances could be multiplied, the custom in the city of Chester that "a man or woman making false measure and being arrested, compounded for it with four shillings"; the custom in the same town of punishing with the ducking pool the maker of bad ale; and the statute of the spurriers of London to the effect that "no one of the trade of

<sup>10</sup>An editorial (1911).



spurriers shall work longer than from the beginning of the day until curfew rings out of the church of St. Sepulcher," are typical examples of legislation of this kind. But perhaps, to the modern mind, the strangest of all the customs was the levying of export duties and the frequent prohibition of the export of certain articles, usually foodstuffs. The purpose of such taxes and prohibition is implicit in the frequently appended clause, "because of the scarcity of the commodity in the city of late." A careful examination of the evidence shows that it was framed in the interest of producers-consumers by men who were not sufficiently used to the intermediate money term to separate the two parts of the economic process.

An explanation of the attitude implicit in this legislation is simple when the conditions of life in the mediaeval town are kept clearly in mind. These laws were enacted, not because men of the Middle Ages were less acquisitive than modern men, or were more imbued with the spirit of Christianity, but because of the peculiar exigencies of mediaeval town life. The mediaeval town, settled by alien merchants, villeins from nearby manors, emancipated or runaway serfs, and fortune seekers from far and near, began its career with no sharply drawn class lines and few local traditions. It was the product of a new industrial movement which threatened to rob the first and second estates of the social and economic pre-eminence which they had enjoyed for centuries. The nature and aspirations of town life were incompatible with the customs of feudalism. There was an inevitable opposition between the larger industrial entity which bourgeois life made necessary and the smaller unit in which alone the spirit of feudalism could survive. There developed consequently a hostility between the old and the new, and it became necessary to fight for existence. From such a common struggle a spirit of solidarity necessarily emerged.

An influence even stronger was the economic dependence of the town. It will not be denied, I think, that where the conditions of existence are severe, a strong feeling of common interests grows up within the group. Such conditions existed in the mediaeval town. It must be admitted that the transition from the Roman system of slavery to the mediaeval system of serfdom represented a great economic gain. The serf, freed from gang work and thrown on his own resources, with rents fixed by immutable custom, and with the assurance of a right to enjoy all the surplus produced above the stipulated rent, held a position that gave promise of efficiency. He was in a position to produce an agricultural surplus, a necessary antecedent to the development of the town. But the real gain in the transi-

tion from slavery to serfdom was potential and not actual. It is very doubtful whether the serf of the twelfth century was producing as much as the slave in the palmy days of the empire. To make this potential surplus actual, the wants of the agricultural laborer had to be developed. Despite the principle of the indefinite expansibility of wants, this process was slow, depending upon the chance visits of traveling merchants, the fairs, and the slow development of the towns. Consequently the precariousness of its food supply made the threat of starvation a very real one in the town. The result was necessarily legislation which sought to conserve the food supply.

It is true that differentiation of occupations characterized the town almost from the very beginning. Even in the days of the early guild merchant individual interests were not completely identical with communal interests. But the technical methods of the guildsman were simple and direct, necessitating the use of very little capital, and causing industry to be carried on on a small scale. The relationship of the master workman to the members of his establishment was personal. Generally speaking goods were made to order. The artisan knew the eccentricities of his customers, and was anxious to humor them. The industrial process was a short time one, goods were generally consumed in the neighborhood in which they were produced, and if any flaw in material or defect in workmanship was discovered, the producer would likely hear of it. Under such conditions the social ownership of productive goods only gradually gave way to the ever-enlarging area of individual property rights. Hence the two processes of production and consumption were practically identified in the mind of the townsman.

This breadth of viewpoint in domestic relations can best be understood by its contrast with the townsman's conduct of foreign or out-of-town trade. The current code of business ethics allowed inferior materials and poor workmanship to be used in the production of articles for the foreign market. The interests of the foreigner were not protected by the customary, or just, price; and if, by hook or crook, the townsman could put off short weight on the foreigner, so much the better. In short, here the element of personality was minimized; and, for that reason, production, the social means, became to the artisan an individual end. In this attitude toward foreign trade is to be found the beginning of the entrepreneur viewpoint. As the industrial entity increased in size and complexity, as the time of the productive process was lengthened, and as business relations became more personal, it is quite natural that the guildman's attitude toward foreigners should come to be his attitude toward all customers.

Yet the influence of mediaeval thought in promoting the spirit of solidarity is not to be wholly overlooked. The town was born in an atmosphere saturated with the spirit of mediaeval Catholicism. Brotherhood and equality had long been preached by the church. Vertical, or interclass equality was never realized, either in chivalry or in the church. But many mediaeval institutions presented at least a fair semblance of horizontal, or intraclass equality. It was under the influence of ecclesiastical precedents that the towns established their new organizations. A study of the characteristic features of the guilds shows how great was the number of things for which they were indebted to religious institutions and how few were the real innovations springing out of the newly created urban life. Influenced by such habits of thought and freed from the obstacles opposed by an already stratified society, the merchant guild legislated with the end in view of placing social interests above class or individual interests. Intellectual conditions and the pressure of economic and political necessity prevented the formal sacrifice of social weal to individual acquisition.

#### 45. The Characteristics of Mercantilist Doctrine<sup>17</sup>

BY JOHN KELLS INGRAM

The mercantile doctrine, stated in its most extreme form, makes wealth and money identical, and regards it therefore as the great object of the community so to conduct its dealings with other nations as to attract to itself the largest possible share of the precious metals. Each country must seek to export the utmost possible quantity of its own manufactures, and to import as little as possible of those of other countries, receiving the difference of the two values in gold and silver. This difference is called "the balance of trade," and the balance is favorable when more money is received than is paid. Governments must resort to all available expedients for the purpose of securing such a balance.

But this statement of the doctrine does not represent correctly the views of all belonging to the mercantilist school. Many of that school were too clear-sighted to entertain the belief that wealth consists exclusively in gold and silver. The mercantilists may be best described by a set of theoretical tendencies, commonly found in combination, though severally prevailing in different degrees in different minds. These may be enumerated as follows: (1) toward overestimating the importance of possessing a large amount of the precious metals; (2) toward an undue exaltation (a) of foreign trade

<sup>17</sup>Adapted from *A History of Political Economy* (1887), pp. 37-40; reprinted from the *Encyclopædia Britannica*.

over domestic, and (b) of the industry which works up materials over the industry which provides them; (3) toward national strength; and (4) toward invoking the action of the state in furthering artificially the attainment of the several ends thus proposed.

If we consider the contemporary position of Western Europe, we shall have no difficulty in understanding how these tendencies would arise. The discoveries in the New World had led to a large development of the European currencies. A new "money economy" had arisen. The mercantilists saw that money was in universal demand, and that it put in the hands of its possessor the power of acquiring all other commodities. The period, again, was marked by the formation of great states, with powerful governments at their head. These governments required men and money for the maintenance of permanent armies and for court expenses. Taxation grew with the demands of the monarchies. Statesmen saw that for their own political ends industry must flourish. But manufactures, because they made possible a denser population and a larger total volume of exports than agriculture, became the object of special governmental favor and patronage. The growth of manufactures reacted on commerce, to which a new and mighty arena had been opened by the establishment of colonies. The aim of statesmen was to make the Colonial trade a new source of public revenue. Working for their own power, the nations entered into a competitive struggle in the economic field.

A national economic interest came to exist, of which the government made itself the representative head. States became sort of artificial hothouses for the rearing of urban industries. Production was subjected to systematic regulation with the object of securing the goodness and the cheapness of the exported articles, and so maintaining the place of the nation in foreign markets. The industrial control was exercised, in part directly by the state, but largely through privileged corporations. High duties on imports were resorted to in the interests of national production. Commercial treaties aimed at excluding the competition of other nations in foreign markets and the exclusion of foreign goods, other than raw materials, from the domestic market. The colonies were prohibited from trading with European nations other than the parent-country. The mercantile doctrine was essentially the theoretical counterpart of the practical activities of the times. Governments were led to it by the force of outward circumstances.

We must pronounce the universal enthusiasm of this period to have been essentially just, as leading the nations into the main avenues of general social development. The organization of agriculture could not at that time make any marked progress, for it was still in the

hands of the feudal class. The industry of the towns had to precede that of the country. And it is plain that in the life of the manufacturing proletariat a systematic discipline could first be applied, to be afterward extended to the rural populations. Technical skill must have been promoted by the encouragement of industry and commerce. New forms of national production were fostered by attracting workingmen from other countries, and by lightening the burden of taxation on struggling industries. Communication and transport were rapidly improved with a view to facilitate traffic. And, not the least important, the social dignity of the industrial professions was enhanced.

#### D. THE AMERICAN FRONTIER

##### 46. Labor on the Southern Plantations<sup>18</sup>

Let us consider briefly the nature of the institution of chattel slavery as it existed upon the southern plantation before the Civil War. The welfare of the slave, like that of the agricultural laborer considered above, depended largely upon the nature of "property rights." Under the plantation system all the equities alike in land and in laborers, so far as they were individually owned, belonged to the "master." It was his sole right to determine what work should be done, when it should be done, to prescribe conditions of employment, and to supervise the work in every particular. Upon him devolved the costs incident to the maintenance of the laborers; to him alone belonged the whole product. The master's control over the slaves extended to their children.

This arrangement made the immediate welfare of the slave a matter of status. It was determined by the requirements of physical efficiency. Because of the master's pecuniary interest in him, the slave received, if not a wage, at least nourishing food in sufficient quantity, clothing at least sufficient for comfort in a warm climate, and a roof over his head that kept out the rain. Since the state of the mind has a great influence upon work, rest, recreation, holidays, and amusements were offered to him. The only occupation in which he could profitably be used was agriculture. This furnished an out-of-doors life, conducive to health, and physically, even if not mentally, stimulating. The seasonal character of the work offered periods of partial rest. Only rarely could there be a succession of "long days." The very nature of the crops gave variety from month to month and prevented the routine monotony of industrial toil. Industrial accident was at a minimum; for by reason of long and intimate companionship the negro had become immune to the mule, the most dangerous mechanism upon the plantation.

<sup>18</sup>An editorial (1916).

But the interest of the master in the welfare of the slave was more than immediate. He exercised over him the right of ownership, which economically was nothing else than a proprietary interest in the whole capitalized value of the future services which the slave might be expected to yield. The master's pecuniary interest in realizing this future value acted as a powerful incentive in securing the conservation of the slave's strength and resources. The health of so valuable a piece of property was guarded by prohibitions against overwork. Care was taken not to use him in dangerous and unhealthy employments. It was an established custom in Mississippi to hire whites to work in the malaria-infected river bottoms, reserving the slaves for the more salubrious employment of the uplands. If perchance the black fell sick, he had the best of medical assistance and nursing. Generally feelings of humanity, which have their best chance for expression in a small group society, particularly if personal relations are of long standing, could be depended upon to secure provision for the slave's old age.

The same pecuniary interest was a guaranty of the conservation of the resources of the young. For them security and opportunity, training and immunity from premature exploitation, did not depend upon the economic fortunes of the "bread winner." Should he become partially disabled, totally dependent, or die, their personal fortunes would not be affected thereby. They were the master's property and much too valuable to be used up before they could render services of importance under the plantation system. The same property interest brought it about that they were taught habits of industry and honesty, and were given so much of technical training as they were likely to need later. If they were denied "book learning," the system required that they should have such consolations as inhere in the Christian religion.

Still the system left the larger problems of the conservation of resources unsolved. It reconciled itself to the use of slave labor for a single purpose, thus allowing a very small number of the negro's latent powers to be developed. The owners kept in their own hands control of technique, thus inhibiting any advance which might come from the activity of the slave's intellect. The use of laborers in gangs broke effectively the nexus of work and reward, thus furnishing no proper incentive to an intelligent doing of the day's work. Closely associated was a failure to develop and utilize the moral values inherent in personal responsibility. It is quite unnecessary to mention the subsidiary waste of the labor of others, of materials and tools of accumulated wealth, and the exhaustion of the soil, all of which were necessary compliments of this waste of human resources.

47. Household Industry in America<sup>19</sup>

BY ROLLO MILTON TRYON

The manual training, domestic science, and household arts courses in our current educational programs are attempting to do what was done in the eighteenth and part of the nineteenth century in the homes. The social pressure that operated in placing these subjects in the schools during the last quarter of the nineteenth century was largely an expression of the feeling that much valuable training had been lost through the decay of the household system of manufacturing—a system that taught the girl, by the time she was twenty, to spin, weave, sew, embroider, knit, darn, crochet, patch, do laundry work well, prepare wholesome meals, make butter, cheese, and candles, and perform other duties connected with good housekeeping; a system that taught the boy to employ the spare moments of his farm life in the manufacture from wood of such farm implements as plows, harrows, sleds, wagons, carts, shovels, flails, swingling knives, handles for spades, axes, hoes, and pitchforks, as well as various aids to domestic comfort, such as brooms, baskets, wooden bowls and bread troughs, butter paddles, cheese hoops, and other kitchen and table utensils; and, finally, a system that engendered such virtues as cheerfulness, happiness, frugality, independence, diligence, perseverance, skill, and self-reliance.

In commenting, in 1848, on the domestic habits of New England women, an elderly lady of Montpelier, Vermont, said that she was firmly convinced that among the changes and revolutions in domestic habits and customs in modern times, so far as the welfare of her own sex was concerned, the change most to be regretted was the one that led to the disuse of the old-fashioned family spinning-wheel. It was her opinion that the movement necessary in drawing out and running up the thread which required a constant march backward and forward, while the arms were alternatively lifted in the operation, and also that of turning, brought all the muscles into play, and made just the exercise necessary for the development of the human system.

The following articles of apparel are typical ones from a large number mentioned and described as homespun in advertisements of fugitive slaves and servants in New Jersey from 1707 to 1776:

Homespun olive-colored coat, homespun white shirt, brown-colored homespun druggat coat, homespun coarse shirt, homespun

<sup>19</sup>These passages are all taken from *Household Manufacture in the United States*, pp. 8, 9, 188-89, 202-3, 224. Copyright by the University of Chicago (1917).

striped breeches, brown or black homespun jacket, homespun coat lined with blue, homespun coat of black and white worsted and wool, homespun gray coat lined with orange stuff, dark-colored homespun coat and jacket, homespun gray stockings, suit of dark-gray homespun cloth, suit of light-gray homespun drugget cloth, new homespun blue-striped trousers, dark-brown homespun kersey coat, homespun worsted knit stockings, gray woolen homespun coat, cinnamon homespun kersey coat lined with broad striped homespun, brown homespun jacket, olive-colored homespun breeches and jacket, brown homespun breeches, homespun gown of green woolen yarn, dark-colored homespun broadcloth jacket, short homespun gown and petticoat with red, blue, green, and black stripes, homespun black jacket, white homespun jacket, homespun striped woolen jacket, homespun coat of woolen and cotton lined, moss-colored homespun coat lined with brown homespun, homespun blue and white striped lincn jacket and breeches, blue-gray homespun drugget coat, striped homespun waistcoat and breeches.

The following list of articles comprises the domestic staples which the Moravian Brethren proposed to contribute to a store which they opened in 1753 for the benefit of the "family":

Apron skins, powder horns, glue, shoes, slippers, shoe lasts, wooden and horn heel pieces, saddle trees, saddles, horse collars, bridles, halters, saddlebags, girths, pocketbooks, martingales, straps, stockings, caps, gloves, socks, hats, felt caps and felt slippers, spinning-wheels, reels, boxes, guns, tea caddies, writing desks, deer and calf skins dressed for breeches, buckwheat groats, oat groats, malt, millet, dried peaches, dried apples, dried cherries, rusks, gingerbread, iron bands for chests, nails, plows, axes, hatchets, grubbing hose, corn hoes, grindstones, whetstones, punk, flint and steel, pipestems, pipe heads, shirt studs, pewter plates, tea pots, lanterns, tallow candles, soap, starch, hair powder, sealing wax, wafers, tobacco boxes, buttons, buckles, spoons, bowls, shovels, brooms, baskets, wheat flour, butter, cheese, handkerchiefs, neckcloths, garters, knee straps, linen, white, blue and checked woolens, currant wine, beer, whiskey, tar, potash, turpentine, pitch, lampblack, sulphur matches, vinegar, flaxseed, linseed oil, rape seed and oil, nut oil, oil of sassafras, ammonia, rasped deer's horn, bush tea, medicine chests, brushes, shovels and tongs, charing dishes, combs, currycombs, glove leather, leather breeches, ropes, blank books, soft soap, rakes, knives, drawing-knives, guitars, violins, tobacco and tobacco pouches, snuff, oil of turpentine, hemp, flax, buckets, milk pails, tubs, pottery, cotton yarn, cord, hatchets, oven forks, linen nets, augers, hammers, pinchers,



candlesticks, tinware, chisels, mill saws, homespun, boots, chips, harness, wheelbarrows, wagons, coffeepots, chains, canoes, boards, bricks, roofing tiles, lime, preserves and pickles, quills and slate pencils.<sup>20</sup>

For bedsteads an oak tree that would split well was selected, cut down, and a log about eight feet long taken from the butt and split into such pieces as could be readily shaped into posts and rails. Another log not so long was split into such pieces as, with a slight dressing, made slats. Holes were bored with a tolerably long auger in suitable places in the posts for inserting the rails; two rails were used for each side and about three for each end, the rails answering for head and foot boards. Like auger holes were made in the lower side rails at suitable points for inserting the slats. When properly prepared the bedstead was put together by pressing the rails and slats in the holes prepared for each, thus making a rough but strong high-post bedstead, the posts at the top being tightly held together by rods prepared for the purpose upon which curtains were to be hung. Thus was created a bedstead.<sup>21</sup>

#### 48. The Frontier Arts<sup>22</sup>

Every American farmer knows: (1) how to judge and evaluate the different soils, even by the trees and plants that grow on them; (2) he knows the various varieties of wood in regard to their uses as building material, for furniture, for agricultural implements, for fences, and for fuel; (3) he can erect his own buildings, quarry rock, burn lime, and can dispense with the aid of the carpenter entirely and needs the joiner and mason only for the purpose of doing the finer work on his dwelling-house; (4) he knows how to transform the forest into tillable land, knows how to raise tobacco, hemp, flax, cotton, and many other things; (5) he knows the rudiments of animal husbandry, and veterinary surgery, can shear his own sheep, and do the work of butcher; (6) he can make his own shoes, can make potash, soap, and maple sugar; (7) he is a good hunter, and can tan the hides of animals, especially those of the deer, as well as the best tanner can. From the Indians he has learned to make use of the brain of the deer in tanning, which makes leather smooth and soft without weakening it in its composition. The housewife can sew and knit, spin and weave, dye and make clothes.

<sup>20</sup>Reichel (editor), *Memorials of the Moravian Church*, I, 234 f., note.

<sup>21</sup>Duncan, *Old Settlers' Papers*, p. 398.

<sup>22</sup>Duden's reprint from *Mo. Hist. Rev.* XIII, 166.

49. The Frontier Virtues<sup>23</sup>

BY BENJAMIN FRANKLIN

I have heard that nothing gives an author so great pleasure, as to find his works respectfully quoted by others. Judge, then, how much I must have been gratified by an incident I am going to relate to you. I stopped my horse, lately, where a great number of people were collected at an auction of merchant's goods. The hour of the sale not being come, they were conversing on the badness of the times; and one of the company called to a plain, old man, with white locks, "Pray, father Abraham, what think you of the times? Will not these heavy taxes ruin the country? How shall we ever be able to pay them? What would you advise us to do?"—Father Abraham stood up, and replied, "If you would have my advice, I will give it you in short: for 'a word to the wise is enough,' as Poor Richard says." They joined in desiring him to speak his mind, and gathering 'round him, he proceeded as follows:

"Friends," says he, "the taxes are, indeed, very heavy; and, if those laid on by the government were the only ones we had to pay, we might more easily discharge them; but we have many others, and much more grievous to some of us. We are taxed twice as much by our idleness, three times as much by our pride, and four times as much by our folly; and from these taxes the commissioners cannot ease or deliver us, by allowing an abatement. However, let us hearken to good advice, and something may be done for us: 'God helps them that helps themselves,' as Poor Richard says.

"It would be thought a hard government that should tax its people one-tenth part of their time, to be employed in its service; but idleness taxes many of us much more; sloth, by bringing on diseases, absolutely shortens life. 'Sloth, like rust, consumes faster than labour wears, while the used key is always bright,' as Poor Richard says. 'But dost thou love life, then do not squander time, for that is the stuff life is made of,' as Poor Richard says. How much more than is necessary do we spend in sleep? forgetting that 'The sleeping fox catches no poultry, and there will be sleeping enough in the grave,' as Poor Richard says.

"If time be of all things the most precious, wasting time must be,' as Poor Richard says, 'the greatest prodigality'; since, as he elsewhere tells us, 'Lost time is never found again; and what we call time enough always proves little enough': Let us then up and be doing; and doing to the purpose; so by diligence we shall do more with less perplexity.

<sup>23</sup>From *Immortal Mentor or Man's Unerring Guide to a Healthy, Wealthy, and Happy Life*, pp. 87-91.

'Sloth makes all things difficult, but industry all easy; and, he that riseth late, must trot all day, and shall scarce overtake his business at night; while laziness travels so slowly that poverty soon overtakes him. Drive thy business, let not that drive thee; and early to bed and early to rise makes a man healthy, wealthy, and wise,' as Poor Richard says.

"So what signifies wishing and hoping for better times? We may make these times better, if we bestir ourselves. 'Industry need not wish, and he that lives upon hope will die fasting. There are no gains without pains; then help hands for I have no lands,' or if I have they are smartly taxed. 'He that hath a trade, hath an estate; and he that hath a calling, hath an office of profit and honour,' as Poor Richard says; but then the trade must be worked at, and the calling well followed, or neither the estate nor the office will enable us to pay our taxes. If we are industrious, we will never starve; for at the workingman's house, hunger looks in, but dares not enter.' Nor will the bailiff or the constable enter, for 'Industry pays debts, while despair increaseth them.' What, though you have found no treasure, nor has any rich relation left you a legacy, 'Diligence is the mother of good luck, and God gives all things to industry. Then plough deep, while sluggards sleep, and you shall have corn to sell and to keep.' Work while it is called today, for you know not how much you may be hindered tomorrow. 'One today is worth two tomorrows,' as Poor Richard says, and further, 'Never leave that till tomorrow which you can do today.' If you were a servant, would you not be ashamed that a good master should catch you idle? Are you then your own master? be ashamed to catch yourself idle, when there is so much to be done for yourself, your family, your relations, and your country. Handle your tools without mittens; remember that 'The cat in gloves catches no mice,' as Poor Richard says. It is true, there is much to be done, and perhaps, you are weak handed, but stick to it steadily, and you will see great effects; for 'Constant dropping wears away stones; and by diligence and patience the mouse ate in two the cable; and little strokes fell great oaks'."

## 50. The Survival of Frontier Qualities<sup>24</sup>

BY CARL BECKER

Frontier conditions have thus developed in America a high degree of individual initiative, a strong sense of individual liberty in respect to certain things, and a marked tendency to estimate material condi-

<sup>24</sup>Adapted from *The United States: An Experiment in Democracy*, pp. 178-83. Copyright by Harper Brothers, 1920.

## IV

### PROBLEMS OF THE PRICE-SYSTEM

"The industrial system in which we live is without order, plan, and system; its name is Chaos," asserts our socialist friend. In a lecture on "The Relation of Political Economy to Natural Theology," an English divine says in substance: "The almost perfect way in which, without conscious intervention, our multifarious industrial activities are co-ordinated into a system that satisfies our needs bears evidence of the mysterious way in which God moves 'his wonders to perform.'" These antagonistic opinions raise some of the most pertinent questions connected with the organization of society. Is our economic world one of order? Can industrial organization maintain itself without authoritative interference? Is the "automatic" organization of society the most economical? Can it be supplemented, controlled, or superceded? Does it serve, or can it be made to serve, the requisite ethical ends? In this division attention is given only to the more immediate aspects of these general problems. A consideration of the factors of a developing society which complicates them must be reserved to the next division.

The first question can be given a definite affirmative answer: our system is possessed of order. The nicety with which men and "jobs," capital and opportunities for investment, and supply of and demand for goods are brought together attests this. An examination reveals in our scheme of prices an admirable mechanism for preserving this organization. Rising prices attract capital, labor, or goods; falling prices repel them. Back of this we find an active organizing agency in pecuniary competition. Further examination shows that our system is admirably adapted to manipulation through price changes. Labor, capital, and goods are mobile; the industrial technique is plastic; and our scheme of values has translated itself very largely into pecuniary terms. We have also devised several special contrivances which tend to eliminate personal factors and make easier the exercise of the motivating power of price. Of these the corporation is typical. It reduces economic judgments to the cold calculus of dollars. It has split up business opportunities into bits small enough to fit the pocketbook of the most insignificant investor; it has distributed the risks of industry in accordance with the whims of different classes of capitalists; and it has served to place capital under the control of the pecuniarily ablest managements. It has, perchance, more than once freed the pecuniarily unfit from the burden of his possessions.

The second question can definitely be answered in the negative. The system cannot maintain itself without authoritative interference. The state must preserve "law and order," maintain the integrity of basic institutions, provide an efficient monetary system, keep free the channels of trade, and act as arbiter in industrial disputes. The various trades must have their bodies of developing custom. The constraints of social usage must give at least a modicum of order to the wants of consumers. Yet the important rôle of authority in industrial organization is often lost sight of and competition itself is denounced as "ruthless." This judgment springs from a confusion of competition and laissez faire; of the process of organization and the fundamental institutions which condition it. The "plane" of competition can be authoritatively determined, even though competition be left "free." Accordingly the ethical character of the result depends, not on the fact of competition, but on "the rules of the game."

The third question cannot, at least at this stage of our study, be answered definitely. More than one industrial activity has been pronounced uneconomical and its personnel parasites. It requires little effort to think of many trades or vocations which for a time have enabled their devotees to reap without sowing. Such methods of acquiring "easy money" necessarily involve "economic waste," and should be forbidden. Frequently "middlemen" and "speculators" are consigned to this class of unproductive and unprofitable servants. Analysis shows that both perform very necessary functions in the organization of the market. But this does not dispose of the question of economy in organization. It may well be that there are too many "middle-men"; that there is a waste of our limited social resources at this point. And it is doubtless true that speculation frequently degenerates into gambling. If so, two problems are presented: Can the waste of resources in mercantile pursuits be checked without interfering with efficiency in service? Can speculation be stripped of gambling without interfering with the performance of its organizing functions? Almost as often the economy of the system as a whole is called into question. Our attention is directed to the "wastes of competition"; and it is urged that these wastes can be eliminated either by a policy of "regulated monopoly" or by "the socialization of industry." A consideration of these delicate problems of economic organization will have to be postponed until later in our study.

The fourth question involves several questions which cannot be answered in a single statement. The evidence seems to be against society's being able arbitrarily to fix prices that are greatly at variance with "natural" prices. The wholesale prescription of a scheme of prices is a very complex question; it practically involves a socialization of industry; economists generally would pronounce against it. However, it seems evident that prices can be indirectly changed by means of controlling demand or supply. This indirect attempt to interfere with prices is characteristic of monopoly, of trades-unionism, and of such proposals as, say, a minimum wage coupled with a control of immigration. It will reappear in connection with each of these problems. Finally, as we have already seen, society can exercise an influence over the institutional situation within which price-fixing occurs.

The fifth question we must pass by. We cannot pronounce an ethical judgment upon the organization of the present system until we have had a chance to study both the problems referred to in this section and many others. It may perchance be that even then we will hesitate to pronounce a judgment.

## A. ORDER OR CHAOS?

### 75. The Social Order<sup>1</sup>

BY EDWIN CANNAN

Some would have us believe that at present there is in society no organization at all. They use hard words, such as "scramble for wealth," "suicidal competition," "exploitation," "profit-hunting," and say that the present state of things is "chaotic." Now, whatever our present state may be, however unsatisfactory it is, it is certainly not chaotic. If it were really chaotic, everyone who goes to his daily work tomorrow must be a fool, since he would be just as likely to get his daily bread if he stayed at home. The very fact that we all know as well as we do that certain results will almost inevitably fol-

<sup>1</sup>Adapted from *Wealth: A Brief Explanation of the Causes of Economic Welfare*, pp. 72-75. Copyright by P. S. King & Co., 1914.

low upon a certain course of action shows that we are not living in chaos. Our system may be a bad system, but it is a system of some sort; it is not chaos. If a man holds a book too close to his nose he cannot read it, and so it is with the world of industry. If we look at it from too close a standpoint we can only see a blur.

Let us imagine a committee of the Economics Section of the Association for the Advancement of Science of the planet Saturn reporting on what they had been able to see of affairs on our planet through a gigantic telescope big enough for them to see human beings moving on its face. Would they be able to report that poor Mundus seemed quite chaotic? Would they report that everyone was scrambling for himself to the disadvantage of everyone else in such a way that the general good seemed entirely neglected? Would they say that all the land in the most convenient situation was lying idle, that nobody had a roof over his head, and that everyone was running about aimlessly or sitting idle in imminent danger of starvation? They might report something of the kind if they could carry on conversations with certain people here and if they believed all they were told, but certainly not if they judged by their own observation.

They would be more likely to report that they had seen a very orderly people co-operating on the whole with a wonderful absence of friction—that they had seen them come out of their homes in the morning in successive batches and wend their way by all sorts of means of locomotion to innumerable different kinds of work, all of which seemed somehow to fit into each other so that as a whole the vast population seemed to get fed, and clothed, and sheltered. They would not, of course, vouch for the perfection of the arrangements. They would see that there were occasional irregularities and hitches. They might see now and then too many vehicles in one street, too many passengers trying to travel by one train or tramcar. They might even see along the country roads the melancholy spectacle of men tramping in both directions in search of the same kind of work. They might be able to see that some had too much—more than they seemed to know how to dispose of without hurting themselves and others—while some evidently had too little for healthy and happy existence. But in spite of these defects they would report, I think, that on the whole the machinery, whatever its exact nature, seemed to do its work fairly effectively.

If we can imagine them able to go back five hundred or a thousand years, we can feel tolerably sure that they would report still more favorably, since they would then see the enormous improvement which had taken place and would discover no appearance of any change which would suggest that the existing system is not the outcome of an orderly development of the institutions of the past.

I insist so strongly on the fact that our existing machinery does work, not with any idea of contending that all is for the best in the best of all possible worlds, but because to understand economics it is necessary to begin by considering, not the defects in the machinery, but the main principles involved in its construction and working. We are likely to begin with the defects because it is they which strike our eye and excite our sympathy. Seven per cent of unemployed are much more likely to make us start thinking than 93 per cent who are in employment. The emaciated corpse of a single person starved to death naturally makes more impression on our minds than the comfortable bodies of a hundred thousand sufficiently fed citizens. But if we want to understand the reason why work and food do not quite "go round," we should begin by endeavoring to discover what, after all, certainly does not explain itself—why they go as far round as they do.

#### 76. Competition and Industrial Co-operation<sup>2</sup>

BY RICHARD WHATELY

"Bees," said Cicero, "do not congregate for the purpose of constructing a honeycomb; but, being by nature gregarious animals, combine their labors in making the comb. And man, even more so, is formed by nature for society, and, subsequently, as a member of society, promotes the common good in conjunction with his fellow-creatures." Most useful to society, and much to be honored, are those who possess the rare moral and intellectual endowment of an enlightened public spirit; but, if none did service to the public except in proportion as they possessed this, society, I fear, would fare but ill. As it is, many of the most important objects are accomplished by the joint agency of those who never think of them, nor have any idea of acting in concert; and that with a certainty, completeness, and regularity which probably the most diligent benevolence, under the guidance of the greatest human wisdom, could never have obtained.

For instance, let anyone propose to himself the problem of supplying with daily provisions of all kinds a city containing above a million of inhabitants. Let him imagine himself intrusted with the office of furnishing to this enormous host their daily rations. Any considerable failure in the supply, even for a single day, might produce the most frightful distress. Some of the articles consumed admit of being reserved; but many, including most articles of animal food, and many of vegetable, are of the most perishable nature. A redundancy of supply would produce great waste.

<sup>2</sup>Adapted from *Introductory Lectures on Political Economy* (2d ed.; 1832), pp. 90-98.

Moreover, in a district of such vast extent, it is essential that the supplies should be so distributed among the different quarters as to be brought almost to the doors of the inhabitants. Moreover, whereas the supply of provisions for an army is comparatively uniform in kind, here the greatest possible variety is required, suitable to the wants of various classes of consumers. Again, this immense population is extremely fluctuating in numbers; and the increase or diminution depends upon causes which cannot be distinctly foreseen.

Lastly, and above all, the daily supplies of each article must be so nicely adjusted to the stock from which it is drawn—to the scanty, or more or less abundant harvest, or other source of supply—to the interval which is to elapse before a fresh stock be furnished, and to the probable abundance of the new supply, that as little distress as possible may be undergone; that upon the one hand the population may not unnecessarily be put upon short allowance, and that on the other hand they may be preserved from the more dreadful risk of famine, which would ensue from their continuing a free consumption when the store was insufficient to hold out.

Now let anyone consider this problem in all its bearings, reflecting upon the enormous and fluctuating number of persons to be fed; the immense quantity and the variety of the provisions to be furnished; the importance of a convenient distribution of them, and the necessity of husbanding them discreetly; and then let him reflect upon the anxious toil which such a task would impose on a board of the most experienced and intelligent commissaries; who after all would be able to discharge their office but very inadequately.

Yet this object is accomplished far better than it could be by any effort of human wisdom, through the agency of men, who think each of nothing beyond his immediate interest—and combine unconsciously to employ the wisest means for effecting an object, the vastness of which it would bewilder them even to contemplate.

Early and long familiarity is apt to generate a stupid indifference to many objects, which, if new to us, would excite great admiration; and many are inclined to hold cheap a stranger who expresses wonder at what seems to us very natural and simple, merely because we have been used to it. A New Zealander who was brought to England was struck with especial wonder, in his visit to London, at the mystery of how such an immense population could be fed, as he saw neither cattle nor crops. Many Londoners, who laughed at the savage's admiration, would probably have been found never to have thought of the mechanism which is here at work.

It is really wonderful to consider with what ease and regularity this important end is accomplished, day after day, and year after year, through the sagacity and vigilance of private interest operating on the numerous class of wholesale and retail dealers. Each of these



watches attentively the demands of his neighborhood, or of the market he frequents, for such commodities as he deals in. The apprehension, on the one hand, of not realizing all the profit he might, and, on the other, of having his goods left on his hands, either by his laying in too large a stock, or by his rivals' underselling him—these, acting like antagonistic muscles, regulate the extent of his dealings, and the prices at which he buys and sells. An abundant supply causes him to lower his price, and thus enables the public to enjoy that abundance; while he is guided only by the apprehension of being undersold; and, on the other hand, an actual or apprehended scarcity causes him to demand a higher price.

For doing this, corn-dealers in particular are often exposed to odium, as if they were the cause of the scarcity; while in reality they are performing the important service of husbanding the supply in proportion to its deficiency. But the dealers deserve neither censure for the scarcity which they are ignorantly supposed to produce, nor credit for the important public service which they in reality perform. They are merely occupied in gaining a fair livelihood. In the pursuit of this object, without any comprehensive wisdom, or any need of it, they co-operate, unknowingly, in conducting a system which, we may safely say, no human wisdom directed to that end could have conducted so well.

## B. THE BUSINESS CONTROL OF INDUSTRY

### 77. Business and Industry<sup>3</sup>

To all of us industry suggests a factory and business an office. More exactly the word "industry" is used to describe all the physical processes by which goods and services are made ready for those who use them. Its concern is with meat and drink, raiment and houses, ballet dances and moving-picture performances; in short, with all the necessities and superfluities of life in all the stages of their production. On the contrary, the word "business" is used to describe all the acts of purchase and sale by which industry is carried on. Its concern is with accounts, costs, prices, profits, and other pecuniary devices and activities through which goods are made and marketed.

### 78. The Nature of Industry<sup>4</sup>

Of all economic institutions industry is the simplest and most intelligible. It comprehends all the physical acts and technical processes through which material and human resources are fashioned into

<sup>3</sup>An editorial (1920).

<sup>4</sup>An editorial (1920).

commodities and services for human use. It is common to all human association. The Arab gathering dates, the Apache hunting the buffalo, the Maori cultivating and harvesting sweet potatoes, the West Virginia hunkie mining coal to furnish power to transport, and the Brazilian engineer trying to make a combustible out of a tropical vegetable oil are all engaged in industry.

Nor is the word confined to manufacturing as it is so frequently in popular usage. It extends to all the physical operations in production from the mining of the crudest raw materials to the refining of the most finished product. All the toil of labor, of man and contrivance, which is incident to producing a loaf of bread, a watch, or a pageant, whether it be planning, digging, plowing, or tinkering, whether it be making machines, manufacturing goods, transporting them, or delivering them to users, is industrial.

However methods may come and go and new devices force old ones to the scrap-heap, there is no escape from industry. Its changing form reveals its eternal presence. For as long as nature and our lack of knowledge make resources scarce and as long as materials have to be put through long processes to be fit for human use, there will be industry.

The pattern to which modern industry conforms was more than a century and a half ago called "the division of labor." If usage had not established this name, the scholar of the nineteenth century would likely have denominated it, "the differentiation of industrial functions and their integration into a co-operative economy." The work of community livelihood is parceled out among industries, great and small, each of which has its own apparatus for production, its own methods for turning "raw materials" into "finished goods," and its own personnel of managers and workmen.

The more necessary of these are called "essential," "basic," or "staple" industries. Such are the growing of grain, coal-mining, transportation, and like industries which either supply necessities to the people or furnish goods or services which the industrial system could not do without. The less important are referred to as "non-essentials" or "specialities." Of these the industries supplying phonographs, cosmetics, candies, "pleasure cars," and light fiction are typical.

The work of these industries is carried on in a number of separate establishments—farms, mines, factories, or shops, as the case may be. Each of these establishments is a little world in itself. Each has a plant designed to serve its purpose, equipment contrived to fit its processes, and laborers trained to its peculiar tasks. In each, whether it be a bakery, a shoe factory, a railroad repair shop, or a shipyard, the act of production or manufacture is broken up into its technical parts

and each of these is assigned to a man or a group of men. These, one and all, use tools specialized to their purposes.

The assignment of different tasks in a particular establishment to different laborers was formerly "the division of labor." But specialization applies to equipment and plant, and to the industries to which establishments belong as well as to human labor. The pattern of modern industry is a specialization of materials, equipment, and men and a co-ordination of all of them into a single system.

#### 79. The Nature of Business<sup>5</sup>

If materials, equipment, processes, and men are to constitute a system, and not a chaotic agglomeration of things, there must be control somewhere. Some decision must be made about the products into which material and human resources shall be allowed to go. Some discretion must be exercised over the quantities and kinds of material and human stuff which various industries are allowed to absorb. In short, some agency must be found for organizing natural materials, human resources, technical processes, production equipment, and like factors, into a system of articulated activities which supplies the community with its livelihood. Nor can the organization be effected once for all time. Materials and labor change alike in quantity and kind; technique develops and equipment goes to the scrap-heap. Our resources must constantly be reapportioned between industries and establishments. In the midst of change and through exact measurement, nice adjustment, and careful fitting unlike and diverse elements must be articulated into an industrial order.

To this problem of the immediate control of industry various communities have given different answers. The three of greatest importance may be referred to as "custom," "authority," and "business." An excellent example of industry under the sway of custom is the manorial system. The lord and his serf were alike bound to the soil and to each other; each came into his station of life, his occupation, and his relation to the other by birth; each could rid himself of his privilege and obligations only by death. The crops sown, cultivated, and harvested were always the same; the implements, methods, and processes varied not as son succeeded father; and immemorial usage dictated an unchanging division of product between master and men. Perhaps there was a time when the ritual of work was ordained by force or agreement, but of this those who were most affected knew least. The heavy hand of custom held their world of industry under rigid control.

<sup>5</sup>An editorial (1920).

The direct control of industry by authority is not unknown. During the war the nations of Europe undertook to specify quite directly what industries should be allowed raw materials and what goods should be produced. Coal, steel, copper, transport, credits, and other precious materials and services were apportioned to industries in terms of their relative contributions toward "winning the war." Even labor was given or withheld on the same principle. As the war progressed the authoritative direction of industry was pushed farther and farther. In the United States, where the war powers of the government were kept at a minimum, the Armistice came just in time to prevent the state from stopping the production of nonessential commodities in order that the materials and labor they embodied might be put to better purpose. An enlargement of such details into a general scheme for the authoritative control of industry is more than conceivable. It has been seriously proposed. In its terms the state would determine what industries were to be carried on and in what establishments; it would apportion the materials of production among these agencies; it would prescribe the technical processes to be used; it would take unto itself the products of the whole industrial system; and it would apportion these among the families of the community in accordance with popular approval or its own rash judgment.

In contrast with the devices of "custom" and "authority," industry is today controlled through a system of usages which the lawyer calls "free enterprise" and the economist "business." This scheme consists of many customs and devices which have very gradually grown up into a system. It is so much a matter of course to us that it is hard for us to think of it as a definite scheme of arrangements. All of us have services or property which can be used in producing usable articles; all of us demand useful things into which the services and property of others have gone. But there is no device of custom that takes what we can give and yields what we get in a regular routine. Nor does a political authority compel us to put our property and services to industrial use or force us to supply one another with the comfortable things of life. Instead we allow business to organize industry upon the principle of profit. To be explicit, let us say that a corporation is organized to serve the public by supplying them with shoes and its stockholders by rewarding them with dividends. It must have a plant and equipment; these it purchases from funds gained by the sale of "stock" to those who have and who through this investment hope to have more abundantly. If these do not suffice, it secures additional funds from more timid investors by offering them a fixed rate of return. It must have leather, cloth, thread, nails, and other raw materials. These it purchases upon the market from those who

are willing to take the prices it offers. It must have labor in sufficient quantity and of assorted trades. This it purchases by paying wages high enough to tempt free laborers into its employ. The necessary processes, patents, and trade knowledge it may own or it may buy. In course of time it has shoes for the public. These it must sell at such prices as the public can be induced to pay.

The ability of the corporation to survive and to engage in industry is contingent upon its success in these various business ventures. It must keep its costs low; and yet it must obtain funds, equipment, materials, and labor in competition with other firms who are trying to gain possession of these things. It must keep its prices at the highest figure at which a sufficient volume of sales can be made; and yet it must persuade the public to buy against the allurements of other producers who have goods to market. If it can solve these problems in such a way as to make receipts exceed costs and yield profits to its stockholders its success is assured. As its profits become larger, it can expand and exercise a greater control over industry. But if it fails to keep expenses below receipts and no profits are forthcoming, the business fails and loses its control over industry. The rivalry between businesses for the materials and customers essential to their industrial activities is incessant. As time goes on, profitable corporations expand and turn into the industries they control larger portions of the community resources. Unprofitable ventures surrender their rights to choose for the community what goods it shall use. Through the coming of new businesses, the disappearance of old ones, and the expansion of the successful, the items which make up the catalogue of the community's wealth are constantly being reorganized into an industrial system which supplies somewhat different goods and in somewhat different quantities.

Business, or free enterprise, is no exclusive affair of those independent producers who operate farms, mines, factories, mills, shops, and stores for profit. It imposes its commands and restraints upon all who have property or services which may be put to industrial use. The man who owns but has no liking for the vicissitudes of ordinary business has to dispose of the use of his property and with the return purchase the articles he requires. The various items of service lumped together and called "labor" have their several markets. The lawyer, the clerk, the mechanic, the skilled worker, and the unskilled laborer must each assume the rôle of the business man and drive the shrewdest bargain he can for his labor. Even the teacher, the preacher, and the prophet are not exempt from the laws of trafficking; the poet must hawk his wares from publisher to publisher. One and all must fare as they can against others who have like services to sell to the business

men who control industry. And, however well or ill it suits our fancies, irrespective of class, sex, or higgling ability, men alike have to purchase the goods and services they require against the competitions of others who also have a taste for the good things of life. Thus it is through business that we engage in industry, utilize our properties, and dispose of our services. Thus it is through business that the elements of production are kept co-ordinated in a developing industrial system.

#### 80. The System of Free Enterprise\*

The bundle of conventions under which, by chance or by design, we have allowed our industries to grow up, is habitually called "free enterprise." It would require more pages than there are in this book to list and to describe all the changing arrangements which make up this obvious and mysterious system. It is enough to mention, briefly, two pairs of institutions, which are at the heart of the scheme, and each of which in its own way epitomizes free enterprise. They are "private property" and "contract"; "profit-making" and "competition."

The first two, private property and contract, supply the mechanics of free enterprise. Private property is a system which determines who shall hold and control the resources of society; contract, a scheme which provides for bringing different instruments together in the productive process. Under free enterprise the owner of a farm, of coal deposits, or of a manufacturing plant can exploit his productive resources himself, hire others to work them for him, lease the properties to someone else to work, or withhold them from use. Subject only to the police power of the state, he may "do what he will with his own." If he hires others to exploit his resources, or leases his properties, he makes a contract. This is an agreement, freely entered into by the two parties, and containing obligations and conditions which are mutually satisfactory. It is by contract that productive resources and those who undertake to exploit them are brought together; that investment funds are secured for conversion into machinery and equipment; that laborers of various trades are found to do all sorts of work; and that the finished goods are disposed of to its users.

The other two institutions, profit-making and competition, are depended upon to direct the industry to its proper ends. Profit-making is the bait that lures individuals and corporations into industry, impels them to produce goods, and thus forces them to serve the community. Competition is "the invisible hand" of staid economists and learned judges which holds profit-making within appointed limits and

\*An editorial (1924).

directs it into altruistic service. Under its régime the consumer is supplied with "good cheap products," for the seller must vie with other sellers in disposing of his wares. In addition the laborer enjoys good working conditions and is supplied with the requisites of a proper life; for employer must vie with employer in securing and holding workers. In like manner, the industry in its growth is adjusted to the changing needs of a developing industrial order. Or, to mix metaphors, the lure of profits causes the industry to go while competition directs it and applies the brakes.

### C. PECUNIARY COMPETITION

#### 81. Economic Activity as a Struggle for Existence<sup>7</sup>

BY ARTHUR FAIRBANKS

The conditions of struggle are all but universal in society. Even writers who regard society as an organism point out a degree of competition between different functions and organs in the animal organism, and profess no surprise that with the less rigid structure of society, this competition becomes a far more important phase of all activity.

It needs no second glance to satisfy one that the economic activity of society may fittingly be called a struggle. Follow some industrial product from the factory up to the time when it is consumed. The manufacturer of cotton goods chooses between competing places for his factory; the makers of his machinery are struggling with each other to produce most economically engines, looms, etc., that are best adapted to his work; raw products he buys from sellers competing in the open market; labor he hires from among men who bid against each other for his work; transportation companies compete with one another in cheaply transferring his goods to market; and, in the market, seller is struggling with seller for the privilege of a sale with profit; buyer and seller bargain together to agree on a price. The present century has seen barrier after barrier swept away, till the whole world enters more or less freely into the one struggle; family and social distinctions are being obliterated in the industrial world; customs and laws in restraint of trade have been set aside.

The result of this sudden expansion of the industrial struggle is to force more clearly on thinkers the fact that civilization moves, not away from struggle, but to new forms of struggle. And the efforts to deal with the many difficulties which have arisen from this

<sup>7</sup>Adapted from *Introduction to Sociology*, pp. 239-54. Published by Charles Scribner's Sons, 1896.

sudden change make it clear that it is not by seeking to prevent struggle, but by modifying its forms, that progress will be made. Laborers who suffered in an unequal struggle have won their rights by combining and entering the struggle as a larger unit. Groups of co-operative buyers have united to do away with the petty competition of the retail store, by elevating competition to a more reasonable plane. Nor are the greatest monopolies of the day altogether free from the higher forms of pressure in the economic struggle, uncontrolled as they may seem for a time.

The change in the form of the struggle modifies the competing units. More in evidence just now is the struggle between groups determined by class lines than groups determined by territorial lines. With the passing of the dominance of individualism, the struggle, apparently, is between larger groups. The truth is that a simple struggle is being succeeded by a complex struggle between different kinds of units. The individual is freed from numerous restrictions that used to hamper him, but the competition in which he engages is limited in a new way. Not only does increasing differentiation effectively limit the number with whom he competes, but much of the burden of the struggle is shifted from the shoulders of the isolated individual to the group of which he is a member. Group competes with group, and the individual competes only with the other members of the group. The town removes many phases of the struggle for existence from each individual, the state removes many others; but within each political unit other ends call out the energy of the individual citizen. The manufacturer, in competing with other manufacturing groups, removes from his workmen much of the stress of economic struggle, but, within definite lines, the workman has only the more bitter a battle to fight.

But no group organization has or can eliminate personal competition between the members of a group. The actual outcome of the social process in which the fit tend to survive and multiply depends largely upon the organization of a given society. With the removal of rigid barriers there has developed a more or less definite apparatus for weeding out the unfit, and advancing those who are fit for better things. In the contest for industrial position, the laborer who can most economically perform a given task is the only one to whom an employer can afford to give the task. Each industrial crisis constitutes a severe test for everyone in the industrial world; the less fit are thrown out of their place in the industrial world, wherever it may be. The so-called "out-of-work" class simply consists of those whose work cannot be utilized. During periods of industrial expansion, the man of wisdom, skill, and vigor expects advance-



ment, because new positions are being created for which these are the only recommendation. Always, everywhere, this contest for individual position is going on.

## 82. Competition and Organization<sup>a</sup>

BY CHARLES H. COOLEY

It seems to me that the fundamental point always touched upon in questions of competition is the meaning of competition in relation to organization. What is the meaning of competition in this regard? I take it to be simply an organizing process. The world is full of various agents. These agents in one way or another are continually getting displaced in the social structure, by the death of individuals, the decay of groups and systems, etc. Some method must be found of constantly building up the organization. If there is any other method of doing this than competition in the broad sense I do not know what it is. There must be some means of comparing and selecting the agents and adapting them to their work.

Competition is not merely a cause of organization; it is also an effect. As everywhere else in the interdependent social system, we find all influences interacting, each a cause of change in the other. Organization is a cause in that it furnishes motives and standards and methods of competition. These things are determined by custom, by law, by public opinion, by the inherited ideas of men.

Taking these points for granted, we come to the question, What is the matter with existing competition? I should say the matter is simply that existing competition shares in the prevailing disintegration of social structures. We are all familiar with this disintegration. It is chiefly, though not entirely, economic in its origin. The result is that the standards, the methods of competition, today, are very far from being what the most enlightened human nature would desire to have them. They are what is sometimes called "individualistic" in the bad sense of the word.

Perhaps I can best indicate this by taking an example. Let us suppose that there is a ship sailing on the seas, properly manned with officers and crew. Here is an organization. It may not be apparent at first that competition is going on in this little society; but it is. If a mate does well, he may very likely get appointed captain on the next cruise, or his wages may be raised. Or again the ship may be competing with another ship across the ocean and various advantages may accrue if it succeeds. Here is a well-ordered competition in which merit succeeds. That is to say, the test of success is

<sup>a</sup>Adapted from an article in the *American Journal of Sociology*, XIII (1907), 655-58.

something for the good of society, namely, the welfare of the ship and of commerce. But suppose that the ship quite unexpectedly in the dark runs upon an iceberg. The captain and the crew are thrown into the water. The society immediately and entirely disappears. The individuals are all struggling in the water, and a new kind of competition takes place. From the good of the ship and society, it falls back on the animal instinct for self-preservation. Man becomes a mere brute under these circumstances. The customs and modes of thought that keep society on a proper level are destroyed.

Something analogous to this is widely prevalent in present society. To pass on to the question as to how competition may become better: It is by building up the social organization through competition itself and raising the level of that competition by the ordinary methods of human endeavor.

### 83. The Ethics of Competition

#### a) *The Beneficence of Competition*<sup>9</sup>

BY CHARLES KINGSLEY

Sweet competition! Heavenly maid!—Now-a-days hymned alike by penny-a-liners and philosophers as the ground of all society—the only real preserver of the earth! Why not of Heaven, too? Perhaps there is competition among the angels, and Gabriel and Raphael have won their ranks by doing the maximum of worship on the minimum of grace? We shall know some day. In the meantime, “these are thy works, thou parent of all good!” Man eating man, eaten by man, in every variety of degree and method! Why does not some enthusiastic political economist write an epic on “The Consecration of Cannibalism”?

#### b) *The Selfishness of Competition*<sup>10</sup>

BY S. J. CHAPMAN

I must reiterate, in order that there may be no mistake, that modern analytical economics neither assumes nor advocates selfishness. But without relegating sentiment to Saturn, we may hold that the affections do not directly enter into most business transactions. “Oh ’tis love, ’tis love, that makes the world go round,” asserted the duchess in *Alice in Wonderland*. “Somebody whispered,” said Alice, “that it’s done by everybody minding his own

<sup>9</sup>From “Cheap Clothes and Nasty,” in *Alton Lake* (1850), pp. lxviii–lxix.

<sup>10</sup>From *Outlines of Political Economy*, pp. 17–18. Copyright by Longmans, Green & Co., 1911.

business." However, among the impulses which are the motive power of business activities, the affections may play a large part indirectly. A man may work his best to make as much as possible in the interests of his family or friends, or even for philanthropic purposes. Finally it must not be imagined that, in the absence of altruistic motives, a man who works his hardest for success must be sordid. The passion of great business leaders is commonly quite other than that of the miser. Because money provides the counters which measure commercial triumphs, we are apt to go astray in our analysis. They who play cards for cowries are not mastered by a passion for cowries.

c) *The Utility of Competition*<sup>11</sup>

To sell an equity in a business which does not satisfy one's morals seems a relic of antiquated individualism, yet any one of us would do it. We object to renting property for saloon purposes, to owning stock in patent-medicine concerns, to enjoying dividends made possible by child labor, overwork of employes, or forcing the incidence of industrial risk upon them. Regarding the issue as one of personal morality, we wash our hands by selling our holdings to others whose particular scruples do not apply to the objectionable practices. Yet such sales merely salve individual conscience; they contribute nothing to an elimination of the objectionable practices. In fact the investment market has been organized in such a way as to permit an easy gravitation of equities in property toward those whose consciences are best fitted for their ownership. One endowed with a gift of narrative might write a satirical story about a group of very virtuous individuals, each of whom happened to be left with a minority interest in a concern that engaged in practices which he disapproved. Each would set about ridding himself of his investment. Such a redistribution of equities would be effected that each would come into possession of a property whose uses met his scruples. Thus the consciences of all would be freed from their burdens and the objectionable practices would be left intact.

84. The Plane of Competition<sup>12</sup>

BY HENRY C. ADAMS

What is meant by saying that unguarded competition tends to lower the moral sense of a business community? Wherever the

<sup>11</sup>From "The Price-System and Social Policy," *Journal of Political Economy*, XXVI, 48, note (1918).

<sup>12</sup>Adapted from *The Relation of the State to Industrial Activity* (1887), pp. 39-47.

personal element of a service comes prominently into view, and the character of the agent rather than the quality of goods is forced into prominence, probity has its market value and honesty may be the best policy. But in the commercial world as at present organized, where the producer and the consumer seldom come into personal contact, the moral arrangements followed in the process of production are not permitted a moment's thought. All that is considered by the purchaser is the quality and the price of the goods. Those that are cheap he will buy, those that are dear he will reject; and in this manner he encourages those methods of production that lead to cheapness.

There are of course exceptions to this rule. But these exceptions do not vitiate it. There must be substantial uniformity in the methods of all producers who continue in competition with each other. Each man in the business must adopt those rules of management which lead to low prices, or he will be compelled to quit the business. And if this cheapness, the essential requisite of business success, be the result of harsh and inhuman measures, or if it lead to misrepresentation and dishonesty on the part of salesmen or manufacturers, the inevitable result must be that harshness and inhumanity will become the essential condition of success, and business men will be obliged to live a dual existence.

The fact upon which we insist at this point is that an isolated man is powerless to stem the tide of prevalent custom, and that in many lines of business those men whose moral sensibilities are the most blunted exercise an influence in determining prevalent custom altogether out of proportion to their importance as industrial agents. Suppose that of ten manufacturers nine have a keen appreciation of the evils that flow from protracted labor on the part of women and children; and, were it in their power, would gladly produce cottons without destroying family life, and without setting in motion those forces that must ultimately result in race-deterioration. But the tenth man has no such apprehensions. The claims of family life, the rights of childhood, and the maintenance of social well-being, are but words to him. He measures success wholly by the rate of profit. If now the state stand as an unconcerned spectator, the nine men will be forced to conform to the methods adopted by the one. Their goods come into competition with his goods, and we who purchase do not inquire under what conditions they were manufactured. In this manner it is that men of the lowest character have it in their power to give the moral tone to the entire business community. One of the most common complaints of business men is that they are obliged to conform to rules of conduct which they

despise. It is a necessary result of a competitive society that the plane of business morals is lower than the moral character of a great majority of men who compose it.

But what, it may be asked, can the state do in the premises? The state has done much and can do more. That code of enactments known as "factory legislation" is addressed to just this evil of competitive society, and it only remains for us to formulate for this code an economic defense. The general rule laid down for the guidance of state interference in industries was that society should be secured in the benefits while secured against the evils of competitive action. When the large body of competitors agree respecting some given method of procedure, but are powerless to follow it because a few men engaged in the same line of business refuse to conform to the proposed regulations, it becomes the province of the state to incorporate the wish of the majority in some practical law. In this manner there is established a legal plane of competition higher than that which could be maintained in the absence of legal enactment. This is no curtailment of competitive action, but a determination of the manner in which it shall take place. If the law says that no child shall be employed in factories, the plane of competition is raised to the grade of adult labor. If married women are refused employment, the nature of competition is again changed, but competition is not restricted. As the result of such legislation some of the evils of the present system would disappear, while all the benefits of individual action would yet be conserved to society.

This, then, is one defense of interference on the part of the state. It lies within its proper functions to determine the character of such competitive action as shall take place. There must be conformity of action between competitors, and the only question is whether the best or the worst men shall set the fashion. One cannot be neutral with regard to this question. No vote at all is a negative vote; and a vote in the negative is as positive in its results as one in the affirmative. Should the state insist on following the rule of non-interference, society cannot hope to adjust its productive processes to the best possible form of organization.

We have all of us, doubtless, heard the claim that the state is a moral agency; that it is imposed with moral duties. For a number of years after this phrase came to my notice, it presented to my mind no distinct meaning. It seemed to me to cover the philanthropic purpose of shallow intellects, and to be most frequently used by men who knew not the way of guile nor anything else for certain. But properly understood this phrase contains a deep truth of social philosophy. It does not mean that the law is a schoolmaster

coercing men to be good, nor that it is the depository of a social ideal to be admired; but, on the contrary, it means that the law is an agency for the realization of the higher ideals of men by guarding them from that competition which would otherwise force them to a lower plane of action, or else force them out of business. In performing such a duty the state performs a moral function, for it regulates competition to the demands of the social conscience. Under the individual may be made to coincide, in some degree, with the fundamental interests of society, and thus, by disregarding the dogma the guiding influence of such a thought the immediate interests of *laissez faire*, the fundamental purpose of those formulating the doctrine is in part realized.

#### D. THE ORGANIZATION OF PRICES

##### 85. The Nature of the Price-System<sup>18</sup>

This making of a living by many men for many men has usually been called the division of labor. Its maintenance requires the continuous organization into a single coherent whole of a wide variety of services, materials, and knowledge. If every member of society is to have a part in this, if each is to give and to get, if the potential resources are properly to be used, if the products are to correspond to the demands for them, the task of organization becomes a delicate one. Everywhere there must be careful measurement, nice adjustment, careful fitting. This delicate articulation of parts has been made possible by the rise of the institution of pecuniary notation, which assigns to the satisfaction of each desire, to the use of each raw material, to each service, to each good, its definite price. Its precision makes possible the maintenance of a highly exact and articulate organization of unlike and diverse elements in an **industrial order**.

The prices of all things in the economic world about us constitute a loosely ordered system, not a mere aggregation of unrelated items. Were they isolated units, one might deal with them as he wished, changing some and leaving the others undisturbed; but because of their intimate connection an abrupt disturbance of one sends lines of influence radiating in all directions. To visualize the system one must first picture the vast and interlocking technique of industry of which this system is but the pecuniary counterpart. Beginning with the single article, it is evident that its price must be approximately identical with the sum of the prices of the goods and services which have gone into it. If it is itself a raw material of a more finished good, it is obvious that the price of the latter is made up by

<sup>18</sup>An editorial (1917, 1925).

an addition to its price of the prices of its other constituent elements. Thus if the line of production be observed from the most elementary of raw materials to the most advanced of finished products it is apparent that the series of prices paralleling these processes will be highly articulate. If raw materials were consistently used in the production of separate goods, each productive process would have its complement in a price-series, but the various price-series would be independent one of another.

But even a cursory view of the technical system shows that these price-series tend to gather themselves into a coherent system. A raw material, for example, is likely to be used in the production of a hundred separate products; yet, despite its varied uses, its units must command a single price. A finished product uses, not one, but many elementary materials. Each of these is produced, not from one, but from many still more elementary materials. In one direction the line stretches fanlike back to the most elementary of raw materials, in the other to a numerous array of the most finished of finished products. The same material may enter a productive sequence at very different stages; it may enter different sequences at stages more or less removed from the ultimate products. The same goods may be used either as a finished product or as a raw material. There are many cases in which products which emerge far along the productive sequence are used in the initial stages of their own production. In view of these qualifications the straight lines of the productive sequences of the preceding paragraph are lost in a wilderness of intersecting lines, adorned here and there with complicated and irregular figures. In terms of a graph, if the movements of goods in the productive system are represented by lines, the totality of technical relationships can best be represented by means of a vast and tangled network. The same figure will represent, at least for the moment, the interrelations and ramifications which constitute the price-system.

Even this complicated device, however, fails to represent the system of prices, for it transcends the current limitations of the technical system. Within it appear prices which represent goods which have not as yet been brought to any market and some of which have only a hypothetical existence. Prices there are, too, which are the pecuniary symbols of goods which long ago passed beyond human control. Every present price is a history and a prophecy. It is what it is both because of the prices which have gone before and because of those which are anticipated in the future. Thus a system of prices which in its specific detail has but a momentary existence, embraces prices of past and future as well as present goods. In

view of this a graphic illustration is impossible; it is an attempt to represent in two dimensions a thing which transcends dimensions.

A scheme of prices refuses to abide. Everywhere, always, changes in price are occurring which give an ever new reality to the whole.

At one extreme, for any one of a number of reasons which the reader can easily supply, the demand for finished products changes. Immediately their prices may undergo change, and straightway there appears a lack of harmony between them and the prices of the goods out of which they are made. This leaves someone in possession of an unexpected profit or an uninvited deficit, affecting his judgments and actions and leading eventually to new prices for some or all of the elements of the finished goods and to a renewal of harmony. This induced agreement in turn leads to a lack of correspondence between the prices of these elements and their constituents. Again, in like manner, and for the same reason, the same event is achieved. In this way the disturbance works its way down to the prices of the primary elements of production and in this way harmony tends to be established throughout the whole structure. At the other extreme, for reasons good and sufficient, the supplies of the primary elements of production may be changed, entailing changes in their prices, lack of harmony between them and the prices of the goods into which they enter, and eventually to a re-establishment of harmony throughout the whole structure by a similar process. Again, a disturbance may appear anywhere within the price-scheme, sending out its influences of discord and harmony in all directions.

The price-system is thus in constant subjection to two sets of forces. The first is the tendency toward disarrangement entailed by the constant appearance of price-disturbing elements at many points. The second is the tendency toward renewed coherence attending the attempts of those affected to appropriate surpluses and to escape deficits. Since both tendencies are ever operative, the system as a whole may be said to be at any moment in a state of arrested harmony. Thus the perfect coherence of the scheme is always threatening but never arrives.

The persistence of a scheme of prices is all the more fitful because the pecuniary unit of value, necessary to the coherence of the scheme, is itself a capricious standard of measurement. It is subject to constant change of value; this change may within a short period of time be quite radical. Such changes must obviously be followed by changes in the whole "level of prices," changes which require time. These are all the more disturbing because prices of goods and services respond with quite different degrees of readiness to changes in the value of the pecuniary unit.



Within the price-system not all values are in the same degree responsive to these constant disturbances. Because the scheme is never in complete harmony the disturbing influences effect their greatest changes near the points where they first enter the system. As they take their tortuous ways through the maze of interlocked prices, their force is gradually spent. Moreover, some prices can more easily withstand disturbance than others. The prices of goods and services limited in quantity and confined to a few uses may easily give way before an upward or downward pressure easily resisted by the prices of staple goods and of services in universal demand. The former, standing alone, must succumb to the shock; the latter, similarly impinged upon, are protected by the sheer weight of the mass to which they belong, the units of which must enjoy like prices. But, even apart from their relative quantities, the prices of some goods are much more fickle than others. Thus even in our competitive system custom fixes the price of many articles, and the established price is not lightly set aside. Other prices are consciously hedged about with various devices which keep them more or less from the vicissitudes of change. Monopoly, to cite a single example, consists of devices of this kind. When the wave of disturbance strikes a price protected in this way it is likely to pass by and spend itself upon others offering less resistance. As with other elements of disturbance, the waves of price-change take always the lines of least resistance.

Within this scheme of prices which takes its origin from far-off and mysterious sources, which is always in process of being remade, and which is composed of items differing widely in their ability to weather disturbance, the members of all the pecuniary groups which make up society are forced to order their lives. It is a succession of links binding them, one by one, to an industrial system apart from which their lives and activities would be alike meaningless and impossible.

## 86. The Making of Values<sup>14</sup>

BY CHARLES H. COOLEY

The pecuniary estimates people set on things are determined in a movement of suggestion and discussion, varying with the group and the time like other phases of the public mind.

This is apparent if we take what appear to be the simplest and most essential commodities. The estimation of wheaten bread as a necessity of life that prevails with us is a matter of opinion and cus-

<sup>14</sup>Adapted from *Social Process*. Copyright by Charles Scribner's Sons.

tom, whether grounded in sound hygiene or not is irrelevant. Other countries and times have thought differently, and we know that foods may be regarded as necessary whose hygienic value is doubtful or negative, like beer in Germany or coffee with us. Consider in this connection the prepared foods known as cereals, for which vast sums are spent by all classes of our people; their vogue and value is clearly a matter of current, possible transient opinion, largely created by the psychological process of advertising.

It is a common saying that values were formerly determined largely by custom, but that competition has supplanted the latter; and no doubt this is true in the sense that the stability of local custom is broken up. In a somewhat different way, however, custom—the influence of the past—is as great a factor in the market now as it ever was. Now as always it is the main source of the habits of thought that control demand and supply and so value. An obvious case is that of funerals. Why is it that so large a part of the expenditure of the poor goes for this purpose, so large that a special branch of insurance is carried on to meet it! Evidently the reasons are historical, reaching back in fact to prehistoric society, and although this case appears exceptional, because this particular convention has lost most of its force among the educated classes, it is none the less true that we draw our values from the current of historical influence. What we are willing to spend money for, as individuals, as classes, as nations, can be understood only by a study of historical influences and of their interaction and propagation at the present time.

Pecuniary values are institutional in the sense that they require the mechanism of the market to define and develop them. But if we go back of this we find that some are based upon rather simple human-nature values, in which the factors of special tradition and organization play no very great part. It is remarkable, when you come to think of it, how few such values there are; but those of meat and flour, of lumber, fuel and the simpler kinds of clothing are relatively of this sort. Some, on the other hand, are the outgrowth of a complex institutional history through which it is difficult to trace the threads which connect them with the permanent needs of human nature. Such are the values of ornamental or ceremonial dress, of many of our foods, of our more elaborate houses and furniture, our amusements and dissipations, our books, and those connected with our systems of education, our churches, political institutions, and so on. The same difference runs through the values set on the services of different kinds of men. Why society should pay a substantial price for farmers and carpenters is obvious; but when you come to lawyers, stock-brokers, promoters, men of science, advertising men, and the like, not to speak

of the holders of capital, who seem to be paid large sums for doing nothing at all, it is clear that the explanation is institutional, not to be reached without a study of the organic growth and interaction of social forms. And it seems clear, also, that values of this latter sort greatly and increasingly preponderate in our social system.

There is a fallacious kind of reasoning often met with in discussions of value, which consists in taking the simplest conceivable transactions, generally those of an imaginary primitive life, noticing the principles upon which they may have been based, and then assuming that the same principles suffice for a general explanation of the complex transactions of our own life. "It is the same thing now, only more intricate," is the supposition. This, of course, overlooks the fact that even granting that such analyses are otherwise sound, which is very questionable, the social complexity is for many purposes the essential thing in the actual value process. It involves an institutional character, which changes with the social type, which may be understood only through a knowledge of institutional organisms, and which can be reformed only by working upon and through such organisms. The study of value-making institutions becomes, then, the principal means of arriving at practical truth. It seems clear that such a character belongs to the pecuniary values of the present time.

The market, meaning by this the system of pecuniary transactions regarded as one organic whole, is as much an institution as the state or the church, which, indeed, it somewhat overshadows in modern life. I mean that it is a vast and complicated social system, rooted in the past, though grown enormously in recent times, wielding incalculable prestige, and, though manned by individuals like other institutions, by no means to be understood from a merely individual point of view. It would be as reasonable to attempt to explain the theology of St. Thomas Aquinas, or the *Institutes* of Calvin, by the immediate working of religious instinct as to explain the market values of the present time by the immediate working of natural wants.

Just what does it mean, from the individual's standpoint, when we say that the market, as a historical institution, is a main factor in values? Not merely that pre-existing individual estimates are summed up and equilibrated in accordance with the formulas of economic science, though this is one phase of the matter, but also that the individual estimates themselves are molded by the market, at first in a general way and then, in the process of price-making, drawn toward a somewhat mechanical uniformity. The individual and the system act and react upon each other until, in most cases, they agree, somewhat as in fashion, in religious belief, and the like. The influence of the market is not secondary either in time or importance to that of the

person; it is a continuous institution in which the individual lives and which is ever forming his ideas. The actual transactions are potent suggestions for new ones, and the actual transactions are the latest expressions of an institutional development in which class rule and a confused and one-sided commercialism have been chief factors. Thus the institution largely dictates the valuations which it afterward equilibrates. To neglect this and treat demand and supply as a summation of original individual estimates involves an adequacy of the same nature as there would be in explaining fashion as due to a summation of individual ideas about dress.

Without taking into account this life of the individual in the institution, we can never do justice to the general sway of the market, as a historical organism, over society at large. It is, as I have suggested, a structure as imposing as the political state itself, filling the eye with the spectacle of established and unquestioned power and impressing its estimates upon every mind.

#### 87. The Constraints of the Price-System<sup>15</sup>

BY WALTON H. HAMILTON

To the individual the price-system manifests itself most intimately in the immediate prices by which his wonted activities are hedged about. These include, on the one hand, the prices of his personal services and of the uses of his property, and, on the other, the prices of the goods and services which his plane of living or the requirements of his business demand. So far as the price-system affects his thought and conduct it is through its influence upon these immediate prices. It may be insisted that this influence, at least for the large number whose primary concern is with the immaterial satisfactions of life, is negligible, for the things of the spirit cannot be purchased. But, as life is organized, the means to the attainment of these things is frequently pecuniary, and they cannot be enjoyed unless material goods keep life within the body. Accordingly there are no cases of absolute indifference to pecuniary income. At the other extreme it is said that the desire for money is in itself the real incentive to all economic activity. The habitual example is the business man who amasses wealth for which he has no need. With him, however, dollars are not the motive, they are mere counters indicative of the success which he has won in the business game. Their importance lies rather in furnishing a common denominator of enjoyment, activity, and opportunity, a means by which human motives can be reduced to intelligible and measurable terms. It is

<sup>15</sup>Adapted from "The Price-System and Social Policy," *Journal of Political Economy*, XXVI, 41-51. Copyright by the University of Chicago, 1918.

reasonable that motives which can thus be reduced to precise statement and compared are of more weight than those whose promises are vague and distant.

So long as men are unlike creatures, so long will they respond in varied ways to the complex of motives which a pecuniary formula holds. There is, for example, the man who insists that, because the price-system is not of his making, it is not to his liking. He would dispense with it if he could; but he finds that impossible, so he grudgingly puts up with just so much of it as he must. He must conform to the extent of earning a living or accepting an income from property, the ownership of which he does not disavow. Under modern conditions the "living" is likely to include means for the attainment of other ends than mere existence. If his income is from property, its size is the measure of his freedom from pecuniary thralldom. If he pleases, he may, at least for a time, disregard this limit and live in defiance of the mandates of the price-system. But if he persists, his property flits to another who is readier to obey the laws under which he lives. A protestant is shorn of his economic power, and with it lapses his active concern with most of the things of this world. The class which defies is small and its members hold a very precarious lease upon economic life.

A second group consists of those who continue to thrive seemingly in defiance of the injunction to make money. But wilful disregard is here merely a mask that hides a careful prudence. If one is protected by a monopoly, if he has invented an inviting trademark, if he is heir to a large amount of "good will," if in any one of a number of ways he has intrenched his income against the vicissitudes of price changes, he has a reasonable degree of immunity. He may engage in doubtful experiments in welfare work, surrender hours of toil to the leisure of his workers, make contributions to charity, or engage in other practices which are at variance with the dictates of the economic man within him. But if it is to endure, such freedom has to be carefully conserved; it is possible only within the limits of the prices about him.

It is therefore within the capacious confines of the class which obeys quite regularly the demands of the price-system that most of the members of society are to be found. In common they find their incomes smaller than they like; in common they would free them from the caprice which they serve. Each must steer his wayward course with one eye upon the prices of the goods which he buys and the other upon his income from services or goods sold. By all means the first must be kept down; by all means the second must be exalted. In view of the uncertainty of the future, to fail

to claim a pecuniary advantage today is to disregard the dictates of wisdom. It may result in a failure to secure a bigger one tomorrow, or it may render that morrow insecure.

The commands, prohibitions, and restrictions which the price-system lays upon individual conduct are immediate and real, imposing restraint both upon the spending of income and the making of it. In the first case one goes to market and exchanges income for means to the pleasures, activities, and attainments which he regards as most worth while. If he has no income, obviously he gets no goods. Since existence depends upon the wherewithal to be fed and clothed, his right to live becomes a matter of public or private grace. If his income is small he can gain the means to a limited range of desired activities; as its size increases he is allowed both more goods and greater discretion in choice. If he desires a new pair of shoes, a ticket to the opera, a picture for the study, a trip to California, a new automobile, an apartment at the Ritz-Carlton, or a public library to herald his name, the matter has to be referred to the dictates of the price-system. As prices go their capricious ways responding to the vicissitude of change, he is forced to change his purchase, his activities, and even his personal habits. They may compel him to eat rice when his taste inclines to potatoes; they may require him to have his shoes mended when he prefers a new pair; they may for the season force him upon the highway in an old car, the shabbiness of which is beyond dispute. A prohibitive price of domestic labor may compel him to renounce his home and take his meals at a restaurant. To accommodate himself once and for all to a scheme of prices which drives him in many directions is not the whole of submission. Their unexpected and arbitrary changes force from him an ever new allegiance and a constant reshaping of his actions.

Great as is its authority over the spending of income, the compulsion of the price-system is even greater in the making of it. Perhaps a careful calculus which makes purchasers attend upon a detailed comparison of the values and the costs of what they buy may be a source of added enjoyments. Yet, as wants and goods become standardized, this importance shrinks, and to the great mass of men and women it appears mere penny economy. The desire of many men for more goods, more opportunities, more means of attainment, are much more likely to take the form of desires for larger incomes. It is therefore over money-making that the price-system exercises its strongest tyranny, and for this reason it is necessary to study quite particularly this influence.

Let us begin with the group charged with the management of independent business ventures. To them success or failure is written

in the balance sheet. They find their activities hemmed in between the prices of the goods and services which they buy and those of the articles which they sell. By grace of high prices or low costs the business adventurer derives from his concern a surplus; by dint of low prices or high costs he has a deficit thrust upon him. Unless a surplus appears, at least for its owner, the enterprise ceases to be. If it is small, his position is precarious; as it increases, there appears room for discretion, for personal judgment, for individual whim. If one would increase output, manufacture a new product, introduce a new technique, change the organization of labor, place his goods in new markets, build a new plant, or engage in a gigantic advertising venture, experts familiar with the matters in question are consulted. They are asked, however, not for decision, but for advice. Their opinions are pertinent to, rather than sufficient for, judgment. They have to be translated into terms of dollars and cents, and final choice is reserved to those who know far more of the mysteries of the pecuniary calculus than of the intricacies of the productive process.

If restraint came only from immediate prices the enterpriser might break them down and find economic freedom for himself. But the costs of many goods which he uses are but local manifestations of prices of goods used in the production of a thousand products. Over selling prices his control seems somewhat greater, but here there are also many restraints. If he has competitors, he dare not go much higher than they lest he be left without a market. If he has none, the double possibility of substitutes and of potential competition makes high prices less inviting. If his good be other than a prime necessity, there is a chance of his market being swept away by the preference of the consumer for the satisfaction of some want other than that to which his product ministers. If he sells to other producers the upper limit of price is quite a rigid one. Hemmed in thus he may seek to escape by increasing the amount of his sales. But price-lowering or extensive advertising, essential to this result, are alike expensive. They can succeed only within definite limits, for he has to compete against the allurements of other sellers. At best only the exceptional concern can expect an extraordinary share of the trade.

To this fitful tyranny of the price-system over the enterpriser many conditions peculiar to the industrial system contribute. The wide variety of the goods offered on the market presents to the consumer an endless choice. The result is that an increasing part of the industrial system is engaged in producing goods which satisfy a capricious demand. Since establishments are built and stocked with equipment to turn out a predetermined volume of goods at the

lowest cost per unit, costs do not decrease in proportion to diminished sales. While it is important to keep sales uniformly large, in few cases is this possible, for the fixed establishment is sadly at variance with the rhythm of activity in the business system. When trade is at a low ebb, small sales, attended by meager receipts, demand the utmost attention to the dictates of price. When the flood time of the cycle is on, there is no surcease, for the manager sees the double danger lurking in rapidly rising costs and in the inevitable depression whose seed prosperity is sowing.

An even more immediate incentive to obedience proceeds from the corporate character of business organization. The impersonal nature of the corporation, the theoretical separation of ownership and management, and the extreme liquidity of securities combine to make responsible managers particularly sensitive to immediate price-motives. The securities are usually owned by the members of a body more numerous than the management, living broadcast throughout the country. Few of them have any personal knowledge of the concern, its organization, its personnel, its technical processes, or the living and working conditions of its laborers. The summary of the economic, social, and moral condition of the business is usually presented to them in the double form of the value of securities and the rate of dividends. If, by grace of management, a generous dividend is forthcoming, inquisitive owners are not likely to probe far into the how and why, and those in control are assured a generous extension of power. If it fails, those who have purchased in securities merely impersonal pecuniary incomes are not likely to tolerate excuses about managerial concern for social good. Their interest in charity is too personal and too precious to be delegated to men who draw salaries for posing as business celestials. If by some mischance a management is elected which proves incurably altruistic, the stock market offers an easy egress to the analytically minded who do not wish to mix uplift with investments. If, as is more probable, particular stockholders object on moral grounds to the policy of the management, they may transfer their ownership to industries more to their liking. The change will soothe the individual conscience without interfering with the practices of the concerns involved. If managers succeed beyond their expectations, their very success evokes the law of capitalization and leads to an increase in the value of the investments upon which in future they are expected to pay dividends. Thus success, instead of bringing relief, merely renews the slavery. Because well-connected businesses pay dividends regularly, the management is constantly under the temptation to subordinate to the amenities of the present projects



which promise much in future to themselves, to the concern, and to the community. The constant opportunities of managers to speculate in the stocks of their own concerns do not diminish this temptation.

The response of enterprisers to the immediate pressure of prices involves more than the temporary well-being of the enterprises they manage. If the ultimate interests of the managers, the business ventures themselves, the laborers they employ, and the communities they supply are in accord with the demands of immediate money-making, they are likely to be served. If the lack of harmony is inconsiderable, the more immediate may be sacrificed to the less immediate value, provided business management and ownership are relatively stable. If they are out of harmony, the less immediate interests of group and community are likely to be sacrificed. No matter how promising a change in working conditions, no matter what the possibility of a proposed law, if it threatens serious interference with immediate gain it is damned. Impinged upon by conditions which they cannot control, business men have no alternative but to attempt to increase current dividends by similarly impinging upon prices not strong enough to resist their impact. To each the flood time of the cycle represents normal conditions; each can be depended upon to favor policies promising wider markets, further exploitation of natural resources, and an acceleration in the rate of industrial expansion. These are the essential demands of the group as they have found expression in social development. It is significant that they arise, not in the desires of business men, but in the institutions to which they must conform, that their end is not to advance consciously appreciated group-interests but to conserve and increase current incomes.

An extended argument seems unnecessary to show the response of professional and laboring men to similar demands for immediate income. If with the former it seems somewhat less whole-hearted, it is because the lurking traditions of the craft period and the better-formulated codes of professional ethics more rigidly confine the motive. But the establishment of bounds rather determines the nature than takes away the intensity of competition. Only where incomes are fixed and personal effort and direct pecuniary reward are divorced do we find a profound disregard to immediate pecuniary values. Professional men and laborers alike have a perishable commodity to sell and are compelled to sell it in an irregular and capricious market. The skilled laborer shares with the professional man the further disadvantage of having to dispose of a highly specialized product. The nature of service and the character of the market beget

a careful regard for current values. To the laborer especially income is a regular flow; his outgo has usually been arranged in strict conformity with that fact. Many times provision can be made for a bare month ahead; in no inconsiderable number of cases the span of economic calculation runs from Saturday night to Saturday night. The failure of an appearance of the pay envelope leaves him without the means of support and may threaten his future security. The opportunity of his children for development, for health, even for life itself, depend upon uninterrupted income. We may therefore expect the laborer and in lesser degree the professional man to take much conscious thought about current income.

It is apparent, therefore, that the class which lives under the continued and fitful sway of the price-system contains the great mass of mankind. To realize their ideals, to carry through their schemes, to thrive economically, even to continue to exist, they must be responsive to the dictates of money-making. It matters not how unselfish the individual, how unmercenary his motives, how great his concern for literature, philosophy, or philanthropy, he must live in a pecuniary society; he must attain his ends by selling and purchasing goods and services. Before he can write poetry, establish schools to teach art, or send forth missionaries to make converts to the abolition of the price-system, he must obey its commands. His aspirations may all be spiritual, he may rebel at the existence of the institution, but in the end no choice is left save obedience. This is not because he is money-mad, nor because money motivates his activities, but because he lives in a society so organized that pecuniary income is a definite and exact summary of his varied and complex assortment of motives. The constraint to subordinate welfare to wealth proceeds neither from an instinct nor a morbid desire, but from the nature of the social organization.

## E. PRICE-FIXING BY AUTHORITY

### 88. The Statute of Laborers<sup>16</sup>

Edward to the Reverend Father in Christ, William, Archbishop of Canterbury, Primate of all England, greeting. Because a great part of the people, and especially of workmen and servants, have lately died in the pestilence, many seeing the necessities of masters and great scarcity of servants, will not serve unless they may receive excessive wages, and others preferring to beg in idleness rather than by labor to get their living; we, considering the grievous in-commodities which of the lack especially of ploughmen and such

<sup>16</sup>Adapted from *Statutes of the Realm* (about 1349), pp. 307-8.

laborers may hereafter come, have upon deliberation with the prelates and the nobles and learned men assisting us, with their unanimous counsel ordained:

That every man and woman of our realm of England, of what condition he be, free or bond, able in body, and within the age of sixty years, not living in merchandising, nor exercising any craft, nor having his own whereof he may live, nor land of his own about whose tillage he may occupy himself, and not serving any other; if he be required to serve in suitable service, his estate considered, he shall be required to serve him which shall so require him; and take only the wages, livery, meed, or salary which were accustomed to be given in the places where he oweth to serve, the twentieth year of our reign of England. Provided always that the lords be preferred before others so in their service to be retained; so that, nevertheless the said lords shall retain no more than necessary for them. And if any man or woman being so required to serve will not do the same, and that be proved, he shall immediately be taken to the next goal, there to remain under straight keeping, till he find surety to serve.

If any reaper, mower, other workman or servant, retained in any man's service, do depart from the said service without reasonable cause or license, before the term agreed, he shall have pain of imprisonment; and no one, under the same penalty, shall presume to receive or retain such a one.

No one, moreover, shall pay or promise to pay to anyone more wages than was accustomed; nor shall anyone in any other manner demand or receive them, upon pain of doubling of that which shall have been so paid to him who thereof shall feel himself aggrieved; and if none such shall sue, then the same shall be applied to any one of the people that will sue. And if lords presume in any point to come against this present ordinance, then suit shall be made against them. And if any one before this present ordinance has covenanted with any so to serve for more wages, he shall not be bound to pay more than was wont; nor, under the same penalty, shall he presume to pay more.

Also, saddlers, skimmers, white tawyers, cordwainers, tailors, smiths, carpenters, masons, tilers, shipwrights, carters, and all other artificers and workmen, shall not take for their labor and workmanship above the same that was wont to be paid to such persons the said twentieth year.

Also, that butchers, fishmongers, innkeepers, brewers, bakers, poulterers, and all other sellers of all manner of victuals be bound to

sell the same victuals for a reasonable price, having respect to the price that such victuals are sold at in the places adjoining, so that the said sellers shall have moderate gains; and if any sell the said victuals in any other manner, and thereof be convicted, he shall pay the double of the same that he so received to the party injured.

And because that many strong beggars, as long as they may live by begging, do refuse to labor, giving themselves to idleness and vice, and sometimes to theft and other abominations; none upon the said plan of imprisonment shall, under the color of pity or alms, give anything to such, so that thereby they may be compelled to labor for their necessary living.

### 89. The Futility of Price-Fixing<sup>17</sup>

BY JOHN WITHERSPOON

If you make a law that I shall be obliged to sell my grain, my cattle, or any commodity, at a certain price, you not only do what is unjust and impolitic, but with all respect be it said, you speak nonsense; for I do not sell them at all: you take them from me. You are both buyer and seller and I am the sufferer only.

I cannot help observing that laws of this kind have an inherent weakness in themselves; they are not only unjust and unwise, but for the most part impracticable. They are an attempt to apply authority to that which is not its proper object, and to extend it beyond its natural bounds; in both which we shall be sure to fail. The production of commodities must be the effect of industry, inclination, hope, and interest. The first of these is very imperfectly reached by authority, and the other three cannot be reached by it at all. Accordingly we found in this country, and every other society which ever tried such measures found, that they produced an effect directly contrary to what was expected from them. Instead of producing moderation and plenty, they uniformly produced dearth and scarcity. It is worth while to observe that some of our legislatures saw so far into the matter as to perceive that they could not regulate the price of commodities, without regulating the price of the industry that produced them. Therefore they regulated the price of day laborers. This, however, though but one species of industry, was found to be wholly out of their power.

There are some instances mentioned at the time when these measures went into vogue, which superficial reasoners supposed to be examples of regulating laws attended with good effects. These

<sup>17</sup>Adapted from "An Essay on Money," in *The Works of the Rev. John Witherspoon* (2d ed.; 1802), IV, 224-26.

were the regulation of the prices of chairs, hackney-coaches, and ticket-porters in cities, public ferries, and some others. But this was quite mistaking the nature of the thing. These instances have not the least connection with laws regulating prices in voluntary commerce. In all these cases the persons who are employed solicit the privilege, obtain a license, and come under voluntary engagements to ask no higher price; so that there is as complete a free contract as in buying and selling in open shops. I am so fully convinced of the truth and justice of the above principles that I think, were it proper at this time, I could show that even in the most enlightened nations of Europe there are still some laws subsisting which work in direct opposition to the intention of the makers. Of this kind in general are the laws against forestalling and regrating. They are now indeed most of them asleep; but so far as they are executed, they have the most powerful tendency to prevent, instead of promoting full and reasonable markets. As an example of our own skill in this branch a law was passed in Pennsylvania in time of the war precisely upon this principle. It ordained that in all imported articles there should be but one step between the importer and consumer, and that therefore none of those who bought from the ship should be allowed to sell again. The makers of it considered that every hand through which a commodity passed must have a profit upon it, which would therefore greatly augment the cost to the consumer at last. But could anything in the world be more absurd? How could a family at one hundred miles distance from the seaboard be supplied with what they wanted? In opposition to this principle it may be safely affirmed that the more merchants the cheaper goods, and that no carriage is so cheap, nor any distribution so equal or so plentiful as that which is made by those who have an interest in it and expect a profit from it.

#### 90. An Apology for the "Price-Fixer"<sup>18</sup>

BY CLAUDE L. BENNER

Every student who has had the pleasure of taking a thorough course in economic principles knows that the function of price is to regulate the economic order. Its thermostatic duties are recognized by all. Automatically when production is low relative to demand or vice versa, price moves up or down as the case may be, even as does the mercury in the thermometer. Were it not for such wicked manipulations of the market as are entailed in monopolies or semi-monopolies, or for the activities of such pernicious organizations as trade

<sup>18</sup>Adapted from an unpublished article, 1925.

unions and governmental regulatory bodies, we are led to believe that the responses to the price-making process would lead to the *summum bonum* of human efficiency.

In spite of the fact that this intricate price mechanism is supposed to work automatically and never needs overhauling, a well-known editorial writer in one of our trade journals recently wrote to the effect that "price is a matter of relationships of so bewildering a complex nature as is beyond the understanding of man to comprehend." Certainly the effect of such a statement upon the ordinary student, conscious of his lack of omniscience, is to give him pause when he considers the question of price fixing.

Moreover, the economic textbooks give scant attention to a consideration of legally fixed prices. Following the leadership of John Stuart Mill, who served notice to his readers, "once for all, the cases I contemplate are those in which values and prices are determined by competition alone," they have added a chapter on monopoly price and then closed the discussion of prices. A student of the economic textbooks gets the impression that legally fixed prices are either futile or perniciously harmful. Usury laws are a case in point, but many others could be given. Finally, no sooner is price fixing mentioned than editorial writers come forward with the profound statement that "you cannot repeal the law of supply and demand." Usually, however, this inexorable law is not stated, but the argument is considered closed and the case won when the damning question is asked, "Didn't price fixing fail during the war?"

Now assuming that the sole function of price is to guide production and consumption, is there anything that can be said for the price fixer as against the present system of prices determined in a market partially competitive, partially monopolistic, and always surrounded by inertia, lags, and misinformation? First, let us consider how prices are determined in the open market. From a rational point of view, every price that a purchaser stands ready to offer for an article is a judgment on his part. So far as he is concerned, he is compelled to form this judgment with only a very limited knowledge of the whole set of conditions surrounding the particular product he wishes to buy. For instance, he knows little about the total stock of the goods he is thinking of purchasing. Neither does he know how much of this particular goods was sold during the previous year nor the prices at which it was disposed. In short, he is practically ignorant of all the larger factors surrounding the market in which he is compelled to make his judgment. And yet out of darkness as dense as this, the so-called demand prices of today are determined.

Further, let us consider the case from the producer's point of

view. He aims to direct his energies so that he can make something for the market that will repay him for his necessary outlay and in addition leave him something for a profit. But what shall he do? Shall he grow wheat, plant potatoes, or milk cows? Had he better open more coal mines or go into the shipping business? Here again, the widest choice is offered the individual, but always he must make his decision more or less in the dark as to the larger factors governing the whole situation. Overproduction, underproduction, booms, prosperity, crises, and depressions are the result.

To the extent that the government and other agencies are gathering information about the whole market conditions, they are rendering the first step essential to a system of rational prices that will so guide the production and consumption of goods that neither of them will outrun the other in any particular product. In world-affairs, of course, omniscience is not to be expected. But is it not possible that with a development of statistical and accounting technique as applied to the respective problems of production and demand, prices can be determined in advance that will more nearly represent the whole market situation than do the prices that are now forthcoming?

In a very real sense from the producer's point of view, prices arrive too late to prevent either relative overproduction or underproduction. True, given time, these prices correct the condition that they caused in the first place and the process continues *ad infinitum*. Whatever the difficulties of administering price-control measures—and they are legion—it takes no great flight of imagination to conceive of an intelligent board, having at its service all the available data, fixing a price for a product that would more truly reflect the demand and supply conditions than do the prices of today which are determined by hundreds of individuals acting separately and in the dark as to the larger factors governing the whole situation.

## F. THE CORPORATION

### 91. The Corporation as an Investment Agency<sup>19</sup>

BY HAROLD G. MOULTON

The corporation is for several reasons an effective agency for the raising of capital. In the first place, the division of the capital into small units in the form of shares of stock or bonds makes it possible to attract funds from people of very moderate means. To this end the par value of bonds and of shares of stock is made small, often

<sup>19</sup>Adapted from *The Financial Organization of Society*, pp. 140-42. Copyright by the University of Chicago, 1921.

very small in the case of shares. While the standard unit is \$100, many companies are organized that sell shares at \$10, \$5, \$1, and even 5 cents each. Investments are thus brought within the reach of every class.

Second, the division of the shares and bonds of corporations into small denominations also makes it possible for individuals to diversify their investments and thus reduce the risks of loss to a minimum. Even so small a fund as \$10,000 may be invested in a hundred or more different companies. It is of note that "baby bonds," of \$100 denominations, and with instalment-payment provisions, have become increasingly popular in recent years.

Third, the division of corporate securities into bonds and shares serves to attract the investments of people of different temperaments and of different economic position. Bonds, constituting a first claim upon earnings, make their appeal to those who are by temperament conservative, or whose economic position is such as to make safety of investment the prime requisite. On the other hand, stock offers an opportunity of higher returns and thus appeals to people who are willing to take chances in the hope of large rewards, and to those whose economic position is such that they can afford to assume larger risks.

Similarly, the division of stock into preferred and common shares is calculated to appeal to investors of different degrees of conservatism. The preferred stock, while not so safe as bonds, is still relatively safe in well-established companies, and it yields a higher return than bonds. Common stock is subject to still greater risks, but affords the possibility of very large returns. Nowadays there is, moreover, a great variety of subclasses of shares, notes, and bonds, all designed to facilitate the raising of funds through varied appeals.

Fourth, the easy transferability of bonds and shares, made possible by the development of organized stock exchanges, enables an individual to withdraw his investment in a corporation at almost a moment's notice. The significance of this for our present purpose is that the ease with which one may get out of a corporation has an important bearing on his willingness to get it. Under present conditions one is not necessarily committed to a given undertaking once and for all; with readily marketable securities the investor retains almost instantaneous command over capital.

Fifth, the large aggregations of capital made possible by virtue of these various advantages, together with the limited-liability principle discussed below, give to the corporation unusual competitive strength and stability, and this in its turn renders securities the more attractive to the general investing public.

Sixth, the corporation now universally embodies the principle of



limited liability, i.e., liability of each shareholder only to the amount (usually) of his individual stock. This is indispensable to the assembling of the vast amounts of capital required by modern business establishments, for it would be utterly impossible to induce an individual to purchase shares of stock in a corporation of large size if his individual liability to creditors was equal to the entire capital. Unlimited liability will be assumed only where the number of owners is few, where they are well known to one another, and where the amounts involved are relatively small.

It should be noted that the principle of limited liability applies only to stock, the bondholders being creditors of the corporation. It is apparent, finally, therefore, that even without the principle of limited liability the corporation would have advantages over the ordinary partnership in the assembling of capital, since the sale of bonds would in any event make it possible to draw funds from a large number of investors.

## 92. The Function of the Corporation<sup>20</sup>

BY J. B. CANNING

The function of the modern business corporation, as a form of business organization, is to increase the productivity of invested capital and to facilitate and stimulate saving. The peculiar ability of the corporation to perform this function is due to its unique combination of legal rights and privileges which allow: (1) indefinitely minute division of its certificates of ownership (stocks) and of its certificates of indebtedness (bonds); (2) limitation of liability of its members (stockholders); (3) the distribution of the risks of industry, by means of issues of different classes of stocks and of bonds, among its members and creditors; (4) the delegation by its members of the power to direct and administer its business policy to its responsible agents, the directors and officers; and (5) an easy means for transferring ownership of its securities from one investor to another. None of these rights, by itself, is peculiar to the corporation. Partnership with limited liability and joint-stock companies possess them in part, but no other form possesses quite so advantageous a combination of them.

To a saver investing his accumulations of capital to secure an income, the value of a nominal income of given amount, rate of flow, and time of accrual, becomes greater as the possibility of loss is minimized or limited and as the probability of gain is increased. In general, the greatest loss possible to an investor in the stock of a

<sup>20</sup>1915.

corporation is limited to the sum paid for the issued, and fully paid, stock. For, unlike the condition found in the ordinary partnership, all of whose members are agents of the firm and each of whom is, therefore, unlimitedly liable for any and all obligations incurred in the course of the firm's business by any other member, the corporation is, itself, a legal person and its stockholders are not its agents nor are they bound to it by any legal obligation other than that of paying for the stock its full subscription value. To a stockholder, therefore, the ability and integrity of other stockholders is a matter of no concern save as they possess the right to vote for directors and, indirectly, for officers, both of whom are agents of the corporation. Since the latter are agents of the corporation and not of the stockholders, they cannot incur obligations for which the stockholders are liable.

The fact that a corporation may, and many do, issue bonds in convenient denominations, amply secured, as to their so-called principal, by tangible wealth and, as to their income, by net earnings considerably above the amount required, makes it possible for the small investor with little knowledge of the company's probable total earning capacity to invest his savings in what is, humanly speaking, a certain income. The same corporation may issue another class of security, preferred stock, which generally has a first claim upon assets and upon income after the claims of the bondholders are discharged. Upon these stocks a definite income; usually larger than that paid the bondholders, is promised—an income that may be, and often is, secured by net earnings considerably in excess of the amount necessary for the purpose. Purchase of this stock enables the investor who has a more intimate knowledge of the company's affairs and prospects to secure a larger income without necessarily incurring greater risk. The ability of the corporation to issue still another class of security, common stock, which has a residual claim upon assets and upon income after all claims of the holders of bonds and of preferred stocks have been met, allows still another class of investors who have the most intimate knowledge of the company's affairs, and who are most willing to incur risks, to secure an income objectively less certain but with no maximum limit other than the earning capacity of the company. The ability of the corporation thus to issue any number of classes of securities, each with a different rank as to priority of claims upon assets and upon income, allows for any relative distribution of risks and of rewards that promises to please the investing public best.

In addition to the limitation of liability, which, in general, limits

possible loss to the amount paid for an issued and fully paid stock, and in addition to the possibility of selecting from a given corporation's securities one carrying little appreciable risk, the investor has another, and very important, means of reducing the risk of large loss, viz., he may distribute his investment among the securities of several corporations engaged in different kinds of enterprise and located in different parts of a country or in different countries. Since stocks may be issued in denominations as small as desired, and since a stock certificate represents an undivided interest in income and assets, it must be obvious that the total loss of an investment distributed widely over the field of industry and apportioned judiciously among the existing industries and corporations can scarcely occur short of a catastrophe involving the general collapse of economic activities. Furthermore, the simple and direct means of transferring ownership of corporation securities makes it easy for an investor, if he loses faith in a concern in whose securities he has invested, or if he learns of some other concern that promises better returns, to transfer his funds to another enterprise. Incidentally this ease of liquidation makes corporation securities highly acceptable as collateral for loans. Since the minimizing of risk increases the value of a prospective income, all these attributes of the corporation operate to offer the investor a larger reward for saving and, in consequence, tend to increase the amounts saved.

The attributes of the corporation above discussed are economically advantageous whether the scale of industry be large or small, but in the field of large-scale industry the corporation possesses a superiority of another sort. We have said that the investor may distribute his investment over a wide range; the converse of this statement is also true, viz., a new enterprise, however great, may draw funds in small amounts from a great number of investors. This makes it possible to gather together the smallest accumulations as fast as they are made and to put them to immediate use in those new enterprises that promise the greatest gains no matter how great those new enterprises may be. This result is usually accomplished through the agency of savings banks, trust companies, insurance companies, and other financial middlemen, who either advise the individual in his choice of securities or else make the investment in their own names from funds loaned them at interest by the saving public. As a consequence of this aptitude of the corporation for accumulating large amounts from small savings, managerial ability, mechanical labor, and machine processes may be so co-ordinated as to enhance to the greatest possible degree the productivity of the capital saved.

The advantages of the corporation are readily seen, then, to be both interacting and cumulative. The productivity of capital is increased by the choice and co-ordination of productive factors rendered possible by large-scale industry. Accumulated capital is put to immediate use where it is most productive. The value of the increased income is enhanced by the limitation and distribution of risks. All these work together to stimulate and to accelerate investment.

### 93. Corporate Distribution of Risk and Control<sup>21</sup>

BY W. H. LYON

The corporation makes possible a parceling-out of the incidents of ownership in many combinations, an allotment of management, risks, and income in varying proportions. The line of apportionment becomes very flexible.

The corporate form marks the line of division of management into administration and control. Shareholders possess control, but through directors delegate administration to officers. Varying rights given special classes of stock make a widely varying apportionment of income, control, and risk. Common stockholders accept a maximum of risk in expectation of a maximum of income. They may share the incident of control equally or in varying proportions with other classes of stock. If two classes of stock enjoy exactly equal rights, except that one has preference as to income, they do not divide control, but risks, and the combination of control plus risk in one as compared with the combination of control plus risk in the other makes the ownership represented by one class entirely different from the ownership represented by the other.

We may speak of these divisions and combinations of income, control, and risk, creating different kinds of ownership, as horizontal divisions. But there is another division of ownership, that represented by the number of shares of stock or the number of bonds. It makes a division into amount of ownership rather than kind, into quantity rather than quality, a perpendicular division.

Now these two kinds of division of ownership accomplish two very different results. The perpendicular division of amounts of ownership makes possible the fitting of every man's pocketbook or financial ability. The horizontal division into kinds of ownership results in an even more difficult fitting, that of his type or state of mind. For one man may be more or less willing to take a chance than another. The same man may be more willing at one time than

<sup>21</sup>Adapted from *Capitalization: A Book of Corporation Finance*, pp. 6-16. Copyright by the author. Published by Houghton, Mifflin & Co., 1912.

another. He may be unwilling to take any risk without having some control.

A corporation's stock regularly carries the largest share of present control and also regularly the largest share of risk. The stock may itself divide into two or more classes having obviously divergent interests, with the result that each class will exercise for different purposes the amount of control it possesses. If there is common stock and preferred stock with a limited dividend, the common shareholders may throw their influence in favor of a more hazardous conduct of the enterprise with an expectation of greater profit accruing to them. Since the preferred stockholders get only limited dividends, they will throw their influence in favor of a safer conduct of the business. Interests of both classes of stockholders might coincide. If the corporation should not earn enough to pay full dividends on preferred stock, the preferred stockholders might desire the more hazardous conduct of the business. If the amount of preferred and common were the same, and each had the same voting power, each class would enjoy control equally. In practice this might not lead to a dead-lock in policy, for one shareholder owning a large amount of common and a small amount of preferred might vote his preferred in favor of his common. If the amount of common were twice as great as the amount of preferred, and a share of each class had the same voting rights, the quality of control would in a way differ just as truly as if the amounts of each class were equal but a greater voting power were given the common than the preferred. In either case the common shareholder in a clash of interests would be more likely to have the corporation's policy incline to his advantage.

A corporation having only one class of stock, and no other securities, offers the simplest type. Such a security carries all the control, all the income, and all the risk. It effects only a vertical division of ownership. This form is proper if a satisfactory division of income, management, and risk cannot be made. A mining company especially cannot well divide the peculiar hazards of the enterprise. Since any class of mining securities must retain so much risk, investors will not sacrifice anything of income or control. So it follows that nearly all mining corporations, including oil companies, have only one class of stock and no other securities. Coal-mining companies have issued bonds to some extent, but this business rests upon a more assured basis than mining for metals. Manufacturing companies frequently issue no securities but their common stock. This is probably due to the fact that they are engaged in established kinds of business and follow the precedents set by

the older partnerships. So far our financial ingenuity has directed itself for the most part to the comparatively new forms of business, railroads and other public-service corporations. With the coming of the big industrial concerns more complex forms of financing appear, and will probably make their way generally into industrial corporations. Though a holding company may have only common stock, that fact does not necessarily imply simplicity, for the subsidiary companies may have complex capitalizations.

#### 94. The Management of the Corporation<sup>22</sup>

BY WESLEY C. MITCHELL

The classical economist assumed that there stood at the head of the typical business enterprise a capitalist-employer, who provided a large part of the capital invested, assumed the pecuniary risk, performed the work of superintendence, and pocketed the profits. Many enterprises of this versatile type remain today; but the extraordinary growth in size and influence of the joint-stock company has given greater prominence to another form of business management.

The large corporation, dominant in business today, is owned by a miscellaneous and shifting body of stockholders. The funds required for fixed investment are provided in some measure by these owners, but in larger part by bondholders, who may or may not own shares as well as bonds. The work of management is usually dissociated from ownership and risk. The stockholders delegate the supervision of the corporation's affairs to the directors and they turn over the task of administration to a set of general officers. The latter are commonly paid fixed salaries.

In such an organization it is difficult to find anyone who corresponds closely to the capitalist-employer. Neither the typical stockholder, who votes by proxy, nor the typical director, who gives his attention to routine affairs, fills the bill. The general officers, remunerated largely by salaries, and practicing among themselves an elaborate division of labor, have no such discretion and carry no such risk as the capitalist-employer. The latter has, in fine, been replaced by a "management," which includes several active directors and high officials, and often certain financial advisers, legal counsel, and large stockholders who are neither directors nor officials. It is this group which decides what shall be done with the corporation's property.

In other cases, however, a single enterpriser dominates the cor-

<sup>22</sup>Adapted from *Business Cycles*, pp. 32-34. Copyright by the author, 1913. Published by the University of California Press.

poration, and wields full authority. The stockholders elect his candidates, the directors defer to his judgment, the officials act as his agents. His position may be firmly entrenched by an ownership of a majority of the voting shares, or may rest upon personal influence over the owners of voting shares. In the "one-man" corporations the theoretical division of authority and function becomes a legal fiction. Practically the dominant head corresponds to the old capitalist-employer, except for the fact that he furnishes a far smaller proportion of the capital, carries a far smaller proportion of the pecuniary risk, and performs a far smaller proportion of the detailed labor of superintendence. These limitations do not restrict, but on the contrary enhance, his power, because they mean that the individual who "owns the control" can determine the use of a mass of property and labor vastly greater than his own means would permit.

While the corporate form of organization has made a theoretical division of the leadership of business enterprises among several parties at interest, it has also been possible to practice a centralization of power. The great captains of finance and industry wield an authority swollen by the capital which their prestige attracts from thousands of investors, and often augmented still further by working alliances among themselves. Among the enterprises of the whole country, this small coterie exercises an influence out of proportion not only to their numbers but also to their wealth. The men at the head of smaller enterprises, though legally free, find their field of initiative limited by the operations of these magnates.

In large corporations the few individuals in control have an opportunity to make money for themselves at the expense of the enterprise itself, or at the expense of the other parties at interest. By giving lucrative contracts to construction or repair companies in which they are interested, by utilizing their advance information of the corporation's affairs for speculation in the price of its shares, by rigging its accounts for the same purpose, by making loans or granting rebates to other companies in which they are interested, it is possible for an inner ring to make profits out of wrecking the corporation. There are certainly instances enough to invalidate the easy assumption that every business enterprise is managed to make money for the whole body of its owners.

## G. THE FUNCTION OF THE MIDDLEMAN

### 95. A Condemnation of Foresters<sup>23</sup>

Especially be it commanded on the part of our lord the king, that no forester be suffered to dwell in any town—a man who is openly

<sup>23</sup>Adapted from *Statutes of the Realm* (about 1269), I, 202.

an oppressor of the poor, and the public enemy of the whole community and country; a man who, seeking his own evil gain, oppressing the poor and deceiving the rich, goes to meet corn, fish, herrings, or other articles for sale as they are being brought by land or water, carries them off, and contrives that they should be sold at a dearer rate. He deceives merchant strangers bringing merchandise by offering to sell their wares for them, and telling them that they might be dearer sold than the merchants expected; and so by craft and subtlety he deceives his town and his country. He that is convict thereof, the first time shall be amerced and lose the things so bought, and that according to the custom and ordinance of the town; he that is convict the second time shall have judgment of the pillory; at the third time he shall be imprisoned and make fine; the fourth time he shall abjure the town. And this judgment shall be given upon all manner of forestallers, and likewise upon those that have given them counsel, help, or favor.

#### 96. If Forestallers Had Their Deserts<sup>24</sup>

BY GEORGE WASHINGTON

It gives me great pleasure to find that there is likely to be a coalition of the Whigs in your State, and that the Assembly of it are so well disposed to second your endeavors in bringing those murderers of our cause, the monopolizers, forestallers, and engrossers, to condign punishment. It is much to be lamented that each State long ere this has not hunted them down as the pests of society, and the greatest enemies we have to the happiness of America. I would to God, that one of the most atrocious in each State was hung in gibbets upon a gallows five times as high as the one prepared by Haman. No punishment, in my opinion, is too great for the man who can build his greatness upon the country's ruin.

#### 97. The Function of the Middleman<sup>25</sup>

BY HARTLEY WITHERS

Anything that has been grown or made usually has to go a long way and pass through many hands before it comes into the possession of the man who finally eats it or wears it or otherwise consumes it. Every pair of hands through which it passes takes toll of it, that is to say, adds something to the price that the final consumer pays, or takes something off the profit that goes to the shareholders in the

<sup>24</sup>From a letter to Joseph Reed, dated December 12, 1778, in *The Writings of George Washington*, VII, 282. Edited by Worthington Chauncey Ford.

<sup>25</sup>Adapted from *Poverty and Waste*, pp. 115-18. Published by E. P. Dutton & Co., 1914.



producing company, or off the wages that can be paid to the workers who made it.

Most of these intermediaries are necessary. It is easy to talk of doing away with the middleman, but when he is done away with he usually comes to life again in another form or under another name. The most clearly necessary intermediary is the transporter. There is also at least one merchant, a broker or two, and the shopkeeper who finally makes the retail sale to the consumer. Furthermore, there is another chain of people who are just as essential as the transporters—namely, the bankers, financiers, and bill-brokers, who find the *crédit* and provide the currency to finance the movement of the stuff from place to place, and see to the consequent transfers of cash or credit.

Now we begin to see the reason for the difference, so startling at first sight, between, for example, the coal that is sold at the pit-mouth for 10s. to 12s. a ton, and costs us in London anything up to 30s. It occurs at once to all amateur economists that it would be an enormous saving if we could do away with all these middlemen and divide their gains between the producer, his workers, and the consumer. Why should not the consumer buy his coal at the pit-mouth? So he could if he were there to arrange for its carriage, and, further, if he were prepared to buy a good round mouth-filling amount, not homeopathic doses of a ton or two at a time. Also he would only buy on the alluring cheap terms one sees quoted in the papers if he contracted to take large quantities at regularly recurring intervals, so that the colliery company could be sure of disposing of its output. Further, he would have to pay for the carriage of the coal, and by the time he had done so he would find that there was a very big hole in the saving he thought he was going to effect by dealing direct with the producer.

As the ordinary consumer could not possibly buy on the scale required unless he had a large amount of capital to sink in coal and a large area of space in which to store it, and as he would also have to run the risk of its deterioration before he could use it, he would at once have brought home to him three services which are performed for him by middlemen, and would have to be performed by him or somebody, as soon as he did away with the middleman. These services are: (1) wholesale purchase and retail selling—the fact that the merchant is prepared to take away the coal in big blocks and store it and sell it piecemeal to suit our convenience; (2) the provision of capital to bridge the gap in time between purchase and sale; (3) the taking of the risks of deterioration in quality if the coal is not sold

fast enough, and of a spell of warm weather which may knock a shilling or two off the price before it is sold.

These services would have to be paid for even if we reorganized society on a socialistic basis.

#### 98. Middlemen in the Produce Trade<sup>26</sup>

BY EDWIN G. NOURSE

It is quite the fashion to impute to "middlemen" sole responsibility for the increases in prices which have recently occurred, and which together constitute what is usually referred to as "the high cost of living." In the words of the Massachusetts Commission on the Cost of Living: "A long line of commission men, produce merchants, jobbers, hucksters, retailers, and what-nots, simply passing goods from hand to hand like a bucket brigade at a fire, is not only inefficient and wasteful, but very costly. In these days a hydrant and a line of hose are wanted."

This is undoubtedly a vivid statement of the case, but like most figures of speech, leaves something to be desired in the way of accurate analysis. It is certainly not more than a half-truth to speak of middlemen as "simply passing goods from hand to hand." The middleman performs four distinct functions, whose value to both producers and consumers should not be overlooked.

In the first place, the middleman provides a market. He organizes the demand for all the various sorts of produce and brings it into effective touch with the producer, who is commonly in no position to find it for himself. The latter's farm or orchard is located with reference to advantages for production, and therefore far away from the markets in which he must sell his product. His abilities are too specialized in the direction of agricultural proficiency to give him the necessary commercial expertness. The time of harvesting the crop is generally the busiest season of the year, leaving the grower little time to devote to the intricate details of marketing his product. Finally, there are comparatively few producers who have a sufficient volume of goods to enable them to ship in carload units, and yet they must move in such quantities, if they are to get to market at all.

A kindred function is that of "equalization." Supplies, on the one hand, are more or less unreliable, fluctuating in quantity and quality according to the caprice of weather, pests, floods, and human nature; and demand, on the other hand, is no less arbitrary, spasmodic, and wayward. But if some central agency gathers these sup-

<sup>26</sup>1915.

plies together, classifies them into lots of appropriate size, and directs them into channels where demand is at the moment most keen, all parties are benefited. A large part of consumers' wants cannot be put in the form of definite orders some time ahead and only a small portion of supplies can be definitely promised in advance. Accordingly a clearing-house is needed, where current supplies can be offset against the day's demand.

This consideration looks over into the second division, namely, the middleman's service to the consumer. To only a small extent is the modern consumer able to connect himself directly with sources of supply. He possesses neither the facilities nor the knowledge. His elaborate market basket is filled from all over the world, from places he wots not of, and yet is replenished daily from stocks which have been brought within his daily reach. Commercial agencies of supply are scouring the world for better goods and constantly seeking better means of bringing them to the place of use and keeping them in the best condition until the time of use.

Alongside of these commercial activities of the produce dealer is a third class of service which may be called "technical"—the actual handling of the goods, storage, repacking and regrading, culling, sorting, and fitting to meet needs or whims of the buying public. It is the oft-repeated comment of the dealers that most people buy, not according to reason, but according to their prejudices; not to get nourishment, or flavor, or real excellence, but to please the eye. The extra labor and material thus necessarily piles up extra costs.

Storage is partly a technical service, but it is charged for on a time basis and so comes also under the head of financing services. This fourth class of the middleman's services is of great importance and yet is entirely overlooked by those who regard him as engaged in merely passing goods from hand to hand. When the householder buys his apples or potatoes only as he needs them, and pays for them only at the end of the month, after they have been consumed, he should not forget that someone has financed that portion of his living expenses. But the dealer goes farther back and finances the transportation and perhaps the growing of the crop. This service doubly benefits the producer, because without it producers would be crippled, supplies curtailed, and prices advanced. This is not to say that producers may not in time arrange to finance their own operations, but so long as the middleman is called upon to do it, he is undoubtedly performing a service, which should not be overlooked when we are balancing his account with the public.

## H. SPECULATION

99. The Gamble of Life<sup>27</sup>

BY JOHN W. GATES

Life is a gamble. Everything is a gamble. When the farmer plants his corn he is gambling. He bets that the weather conditions will enable him to raise a good crop. Sometimes he loses, sometimes he wins. Every man who goes into business gambles. Of course the element of judgment enters in, but the element of chance cannot be ruled out. Whenever a man starts on a railroad journey, it's a gamble whether he ever reaches his destination. All life is a gamble, you see.

100. The Twilight Zone<sup>28</sup>

BY HARRY J. HOWLAND

The stock exchange provides facilities which are used for three kinds of transactions—investment, speculation, and gambling. If the transactions on the floor belonged wholly to the first class, the exchange would be unqualifiedly good. If they belonged wholly to the last class, it would be unqualifiedly bad. It is the middle term of this trio which falls on debatable ground. Investment needs no defense; no defense will save gambling from condemnation. But speculation is in a very different case from either. Speculation is a dog with a bad name. It is possible to gibbet it along with gambling and loose living.

But is the verdict just? Is speculation an unsocial practice? Is the speculator, like the gambler, an enemy of society, a drone in the hive, contributing nothing to the general welfare? It is a convincing answer to this question that we seek.

The three processes which go on upon the floor of the stock exchange—investment, speculation, and gambling—are often inextricably mixed. It is often practically impossible to assign any particular operation without question to one of these three classes.

Investment, for instance, is sometimes semi-speculative in character. Here is a man who has saved a thousand dollars and wishes to lay it aside against a future need. There are many ways in which he may invest it on the stock exchange. He may buy government bonds with it. But in this case there is no chance that his principal will be increased to any degree when he comes to sell his bonds. This is pure investment.

<sup>27</sup>Quoted in *Current Literature*, LXI (1910?), 266.

<sup>28</sup>Adapted from "Speculation and Gambling," in the *Independent*, LXXVI, 15-17. Copyright, 1913.

Or he may purchase a stock which, while it pays a good rate of dividend with regularity, is subject to fluctuations in price. Here he has a paying investment with the possibility of an increase in principal when he sells out. The stock may turn out, not only a good investment, but a good speculation.

Or he may buy a stock which at present is paying no dividend at all, but which is selling at an extraordinarily low price. The value of the stock is all potential. The element of investment is totally absent from such a purchase. So investment and speculation are inextricably mixed in all kinds of operations on the stock exchange. In some, investment predominates; in some, speculation. In many the mixture is of nearly equal parts.

Again, the line between speculation and gambling on the stock exchange is hazy and indistinct. There the twilight zone is broad and clouded. This is not because any of the operations on the exchange are in form or in essence gambling operations, as betting on a horse race or playing poker. The truth is that stock exchange speculation is not gambling, but it leads to many of the same evils to which gambling leads. This statement opens up highly debatable ground. Probably the most common view is that stock speculation might more properly be called stock gambling, that speculating on the price fluctuations of stocks is no different from gambling on the fall of cards or the gyrations of the roulette ball. But there are two essential differences, while at the same time there is one essential likeness.

Speculation differs from gambling in process. In a gambling transaction if one party wins, the other party must lose. In speculative transactions it is no more necessary for one party to lose if the other party wins than it is in speculative purchase of land or potatoes or eggs. The transactions of the stock exchange are sales and purchases, bona fide, actual, complete. In each transaction each party to it gives what he wants less for what he wants more. The judgment of either or both may be bad. But it is no less a real bargain, in which each side gets value received for what he gives. Gambling, on the contrary, does not involve an exchange of values. It is a contribution of values to a central fund, the ultimate ownership of the fund to be determined by chance. True, in gambling each contributor receives a chance of receiving all the contributions; but he also runs a risk of losing his whole contribution. Thus the speculator receives a value in return for his stake, while the gambler does not. For the former it may not be the value that he thinks he is getting, and the value actually received may decline. But that is true of everybody who buys a commodity with a view to its increase in value, from raspberries to skyscrapers. The fact that a man's judgment as to

future values may prove unsound does not throw him into the class of gamblers.

Nor does the fact that speculation on the stock exchange is largely carried on through tradings on margins and short-selling make it gambling. Both processes are common under other names throughout the commercial world. Trading on margin is buying stock, and making only a small cash payment at the time of purchase. It differs in no essential particular from buying furniture on the instalment plan, from buying land on mortgage, and from buying books by subscription. It merely involves the use of personal credit backed by security.

Short-selling is selling securities which one does not possess at the moment in the expectation and belief that they will go down in price. This action is no more gambling than that of an automobile manufacturer in contracting to sell an automobile before he has in his possession any of the materials out of which it is to be made is gambling.

Speculation and gambling, again, differ widely in the service which they render to the community. Gambling renders none. The gambler is a drone in an economic hive, a parasite in the industrial organism. Speculation renders a real, a valuable, and indeed an indispensable service. The stock exchange brings the investor and the enterprise together. It directs capital into channels of investment which the owners of the capital would never have been able to find for themselves. The speculator performs an important function for the investor by forecasting the future. Speculation is the struggle of intelligence, armed with a knowledge of the ascertainable conditions, against the blind workings of chance.

The essential likeness between gambling and speculation lies in the fact that both are attractive to those who have no business to indulge in them. Men will gamble who cannot afford to gamble, who have no skill at the game they seek to play. So, too, men will enter into speculation lacking adequate resources, adequate knowledge, and adequate judgment. For just as gambling is attractive because it holds out glittering hopes of making money without labor, so speculation is attractive because the prizes for the successful are out of all proportion to the effort expended or to the stake put up.

The main evil which accompanies speculation lies in this participation in it of the unfit. It is not speculation in itself that is an evil, but the improper and unwise use of the speculative faculties by the ignorant and the unskilled, the insufficiently provided, the weak in judgment.

101. Hedging on the Wheat Market<sup>20</sup>

BY ALBERT C. STEPHENS

A Glasgow miller, in February, desires to purchase 100,000 bushels of California wheat to grind into flour. The price has been tending upward. He purchases this wheat, engages freight room, and arranges to have it shipped to Glasgow. The price and freight will make the wheat cost him in Glasgow about \$1.07 per bushel. But the wheat will not arrive until September or October, five months away. By that time, following the Atlantic coast harvests, and with the then probable renewal of arrivals of Russian and Indian wheat, the Glasgow price might or might not be lower than \$1.07. In order to insure himself against loss, the Glasgow miller sells 100,000 bushels of wheat for October delivery at New York. The California wheat arrives at Glasgow, but the price of wheat the world over has declined, and the miller finds that it has cost him two or three cents a bushel more than the then ruling price. Under strictly old-fashioned methods, had he not sold 100,000 bushels of wheat at New York, he would find himself at a decided disadvantage in competition with millers who had not anticipated their wants as he had. But he is not so placed. When he found the market a few cents lower, he cabled an order to New York to buy 100,000 bushels for October delivery. At the maturity of his New York speculative contracts, he finds a profit about equal to the loss on his California transaction. Thus, owing to his protective future contract, he stands no loss, despite the drop in the price of wheat. Had he found a profit on his California wheat when it arrived—that is, had the price advanced after the grain left San Francisco—he would have covered his New York sale at a corresponding loss, thus leaving him situated as before. In this way, English millers and importers of wheat, buying in the United States, Russia, or elsewhere, habitually protect such purchases from fluctuations in prices, while in transit, by selling futures against them at New York or Chicago, and later by covering their contracts. When we consider the aggregate of wheat purchases made in this country, and remember that all of these sales are in time covered by corresponding purchases of wheat, and that in all cases these speculative sales and purchases call for the actual delivery of grain, we may gain some conception of the reasons why future sales make so large a total.

But these insuring or protecting sales and purchases are by no

<sup>20</sup>Adapted from "Futures in the Wheat Market," *Quarterly Journal of Economics*, II, 47-51. Copyright, 1887.

means confined to foreigners, who buy throughout the world and ship to Europe. One may also find ample illustration at home. A New York merchant buys 100,000 bushels of hard wheat at Duluth, and orders it shipped by vessel to Buffalo, to go thence to New York by canal. He does this, not because he wants the wheat for his own use, but because he believes that, in view of known or apparent market conditions, he will be able to sell the grain in New York at a profit. With a more primitive view, he would ship this grain, wait until it arrived, look for a purchaser, and, finding one, sell the wheat for the price current on the day of arrival—say, three weeks after he bought it. If at a profit, well and good; but if the price had declined, he would sustain a heavy loss, owing to the size of the shipment. But, nowadays, the New York merchant sells 100,000 bushels of spring wheat, September delivery, at Chicago, at the date of his Duluth purchase in August. When the wheat reaches Buffalo, the price has advanced, and the millers there want part of his consignment. He sells them 25,000 bushels, and buys 25,000 bushels of spring wheat at Chicago, September delivery, to make good the original quantity purchased. By this time he has also sold at New York 100,000 bushels, September delivery, to an exporter, and bought 100,000 bushels more at Chicago, relying on the 75,000 bushels on its way and his ability to get 25,000 bushels more, before it is demanded, to keep his engagement. When the 75,000 bushels hard wheat reach New York, the price has declined fractionally; and the owner is enabled, in consequence, to purchase 25,000 bushels at a slightly better price, relatively, than he paid in Duluth, selling 25,000 coincidentally at Chicago for September delivery. He lost on his Duluth purchase and on the 25,000 and 100,000 bushel purchases at Chicago, and on the 25,000 bushel purchase at New York. But he made rather more than corresponding gains through his sale, spot delivery, of 25,000 bushels at Buffalo, including profits on his sales of 225,000 bushels for September delivery at Chicago and New York, so that he gains on sales of 250,000 bushels, and loses on the purchases of 250,000 bushels. The transaction, as a whole, is not very profitable; but millers at home and abroad get wheat at the lowest market price on the dates of purchase, and the merchant whose sagacity, energy, and foresight led him to make a purchase, even when price conditions were unfavorable, is able to protect himself from excessive loss, without depressing the price to the original holder, and without having an incentive unduly to advance the price to the consumer.



102. The Uses of Hedging<sup>30</sup>

BY C. O. HARDY

Among the institutions which have developed to aid the business man in avoiding the risks incident to our roundabout, time-consuming methods of production and distribution, one of the most interesting is the system of shifting the risks of price changes, which is made possible through the use of the futures markets for "hedging" purposes. A hedging transaction may be defined as a coincident purchase and sale in two markets, which are expected to behave in such a way that any loss realized in one may be offset by an equivalent gain in the other.

As applied in the grain- and cotton-futures market, the term "hedging" refers to one of two types of transactions. The first, the hedging sale, arises when a country grain dealer, a terminal buyer, a miller, or an exporter buys grain in the cash market and sells futures contracts of an equivalent amount, as protection against a fall in price during the time that the grain is in his possession. The second, the hedge purchase, arises when a manufacturer has sold his product ahead at a fixed price and buys futures to protect himself against an advance in the price of raw material. The idea is that if the price of cash grain declines a similar decline will probably occur in the futures market, and the loss realized on the one transaction will be offset by a gain realized on the other. It goes without saying that such a protection cannot be obtained without giving up the chances of a profit from a price fluctuation in the opposite direction. Since the hedging transaction involves some costs for commissions, taxes, interest on margins, etc., it is clear that the average result of a long series of such trades should normally be a slight loss, but this loss is regarded as a premium paid for insurance against the risk of such heavy losses in an unfavorable season as would disrupt the business and prevent its continuance through the long run, in which gains and losses from price changes could be expected to balance.

The question may arise, Why would any individual engage in transactions of such a character that the chances of loss and the chances of gain offset one another? The answer is that in changing grain from country points to terminal markets, in milling, in jobbing flour, and in other operations incident to the production and distribution of grain production, the trade or manufacturing profit can be expected under ordinary conditions of competition without reference to any gain or loss from price changes. The hedge enables

<sup>30</sup>From *Risk and Risk-Bearing*, pp. 123-25. Copyright by the University of Chicago, 1923.

the operator to make his price and regulate his business on the basis of his ordinary trade profit, without the possibilities of speculative loss or gain which arises from the instability of prices. It is impossible to carry on such operations as these without owning grain or its products through a certain period of time, but the hedge enables the operator to isolate the ordinary risks of competition from the special risks, which arise from the instability of prices of the commodities in which he is dealing.

Several advantages result from such a separation. For one thing, the amount of credit which the grain or other operator can secure is much greater. This is true because the protection afforded a bank by the use of warehouse receipts for grain as collateral is much stronger, in case the owner is protected against loss by hedging contracts. The principle is the same as that involved in the custom by which the mortgagors are required to keep property insured for the benefit of mortgagees. In the second place, the use of the hedging contract makes it possible to do business on a much smaller margin of profit. Where hedging contracts are not available, commodities must be handled on a wide-enough margin to compensate for the risk of adverse price changes. When the protection of the hedging contract is available, competition ordinarily brings about a narrowing of the profit margin in accordance with the reduced amount of risk. This is of no financial advantage to the grain dealers as a class, but makes it possible for consumers to receive the benefit of lowered prices, or grain producers to receive the benefit of higher prices, or for both these things to take place, and it also makes the grain dealers' business less speculative.

It is clear that the gains from the practice of hedging are entirely due to the reduction of uncertainty, and not to any reduction in the probability of the unfavorable contingency against which protection is sought. Whenever a man saves himself from loss by hedging through the futures market, someone has to lose to keep him even. The question therefore arises whether the total amount saved by hedgers as a group on transactions, where they would otherwise incur loss, is greater or smaller than the profits they lose in cases where the market moves in their favor. The theory generally accepted among economists is that the speculators who buy and sell hedges to grain dealers, millers, and other tradesmen are specialists in the art of discounting the future, more expert than those with whom they are dealing, and that hedgers as a class, therefore, lose something in the long run to the speculators for their service of reducing trade risk, and from the standpoint of the grain trader should be figured like his commissions, as a premium paid for insurance against risks too great to be borne.

No statistics bearing on this question are available, but it does not

seem probable that, as a matter of fact, speculators are more expert than the dealers with whom they trade. Grain dealers, millers, and others who habitually hedge probably stay in business much longer on the average than do speculators, and, therefore, accumulate more experience. The speculative group includes a certain number of professional large-scale operators who do succeed in staying in business year after year, and presumably are making satisfactory profits, but these are the survivors of a large number whose financial strength is exhausted, or whose taste for speculation is satisfied before they attain the dignity of professionals. A few speculators make very large profits, but in all probability the business of furnishing hedging contracts belongs in the list of services which, as a whole, are rendered for society without compensation.

### 103. The Ups and Downs of Securities<sup>31</sup>

BY FRANCIS W. HIRST

In the first place the value of a security depends mainly upon the quality which a bale of cotton or a ton of coal does not possess. It is either actually or potentially interest-bearing. This quality is visible in a bond with coupons attached. A bond like that bought by subscribers to a Prussian state loan will have attached to it quarterly or half-yearly coupons, which can be cashed in almost any great center of finance. If the government promises to redeem the bond at the end of a definite period at par, at its maturity the bond will be worth par. In the meantime it will rise and fall according to the conditions, first of German credit, secondly of the international rate of interest. But these tendencies may be wholly or in part counteracted by antagonistic movements of an international character, for instance, a great war which destroys a vast amount of capital and absorbs vast quantities of savings. But the Prussian bond is not likely to fluctuate much, and the limits of its fluctuations will be the more restricted the more nearly it approaches its maturity. Thus the value of a security depends mainly upon (1) the rate of interest, (2) the safety of the principal, and (3) the likelihood of the principal or the rate of interest either rising or falling. These are the main causes of a rise or fall in securities.

But the business of the stock exchange operators is to endeavor to forecast and discount in advance the natural fluctuations of intrinsic value. In the old days before the telegraph, fortunes were made by getting early information, or spreading false information

<sup>31</sup>Adapted from *The Stock Exchange*, pp. 199-210. Copyright by Henry Holt & Co. and Williams & Norgate, 1911.

of victories and defeats, which would enhance or depress the price of stocks. The first Rothschild laid the foundations of his immense fortune by getting early news of important events. Nowadays the principle is still the same, but the art of anticipation has been made much more doubtful and complicated. Telegraphs and telephones are open to all. What everybody reads in his morning paper is of no particular use to anybody in a speculative sense. Besides, many foreign governments keep large funds in London and Paris for the express purpose of supporting the market. Hence in the market for government bonds, big movements are rare.

When we come to the prices of railroad and industrial stocks the causes of movement are much more difficult to detect, and the possibilities of making large profits by inside knowledge is much greater. The newspapers may be the conscious or unconscious tools of the manipulators. In new countries the banks are likely to be a working part of the speculative machinery. Thus in the United States those who use great fortunes in finance frequently have a controlling interest in a bank. What is called a "community of interest" may be established which will control important railroads and huge industrial corporations, as well as a number of banks and trust companies. The various ways in which such a community may manipulate a susceptible market like Wall Street might be made the subject of a long and fascinating volume.

Suppose that a powerful group wishes to create the appearance of a general trade depression in the United States. To do so is not at all impossible. The controlled railways may announce and even partially carry out a policy of reduced orders for rails, equipment, and repairs. They may ostentatiously proclaim an addition to the number of idle cars. Well-disciplined combinations of steel and textile mills may declare a curtailment of production. Banks may suddenly become ultra-conservative; the open accounts and credits of small speculative customers may be closed. In this way a general feeling of despondency can be created. Stocks will fall, partly in consequence of the action of the banks, causing a compulsory liquidation of speculative accounts, partly through the voluntary action of speculators who think that trade, earnings, profits, and dividends are likely to decline. Thus a bear market is created. The syndicate can now employ huge funds to advantage in profitable purchases of those stocks and shares which fall most and are most responsive to ups and downs. Such a policy of course represents great difficulties and dangers. It must be carried out very cautiously and very secretly, and very honorably as between the members. If it is too successful it may create a slump, or a panic, in which the community of interests

may itself be seriously involved. For these and other reasons American operators and manipulators do not frequently enter upon a concerted plan for colossal bear operations. Such a scheme is unpopular. It offends public sentiment. A long bearish movement, accompanied by unemployment, reduced earnings, and economies in expenditure, produce all manner of unpleasant consequences, economic, social, and political. In fact big men often boast that they never operate upon the short side; never play for a fall.

Such a movement as that sketched above, is comparatively rare, cautious, and temporary. Wall Street has of course to wait upon circumstances. Sometimes it is caught by the circumstances. But it must always try to adjust itself to economic and political conditions. A political assassination, a war, a movement against the trusts, unfavorable decisions in the courts, an unexpected downfall of the favorite political party, a catastrophe like the San Francisco earthquake—such events as these may produce an irresistible flood of liquidation against which the strongest combination of bankers and corporation men will struggle in vain. In a general scramble produced by some unexpected event there is more likely to be a general loss than a general profit. For in the history of speculation the unexpected event is usually a calamity.

Real prosperity is built up gradually. The stock exchange anticipates and exaggerates it, until the speculative fabric has been reared so high above the real foundation that a crash is seen to be inevitable. Generally speaking, because of superior knowledge, the insiders are able to unload at high levels, just as they have been able to load at low levels. So, by speculating in stocks of a national size and significance, the outside public loses more than it gains. It begins to buy when they are dear, and it begins to sell when they are cheap.

For purposes of scientific analysis we may rest the theory of stock exchange quotations upon a distinction between prices and values. Prices are temporary; values are intrinsic; they move slowly. The price represents the momentary market value of a stock or bond. The value is the real worth, a thing undefinable and impossible to ascertain. If the real value were ascertainable and available to the public then price and value would be identical, and in the case of gilt-edge securities, the two are as nearly as possible identical. But intrinsic values themselves change like everything else in the world. They depend mainly upon (1) the rate of interest, (2) the margin of surplus earning power or revenue.

Both stocks and bonds are also affected in their intrinsic value by the money market and the relationship of the supply of capital seeking investment to the demand for capital by new flotations. The

intrinsic value of common stock depends also upon the actual efficiency of the corporation, the condition of its plant, the skill of its management, and the contentment, intelligence, and industry of its whole staff.

Of course all these changeful elements of intrinsic value enter into prices. But as prices sometimes fluctuate violently, it is obvious that they must also be affected by other causes. These may be summed up under two heads: (1) False rumors, which have got about either by design or through the carelessness or mistakes of newsmongers; and (2) Rigs, pools, combinations, and other technical devices, by which the market is either flooded with, or made bare of, a particular stock or group of stocks.

#### 104. The Functions of Exchanges<sup>32</sup>

BY CHARLES A. CONANT

The fundamental function of the exchanges is to give mobility to capital. Without them the stocks and bonds of the share company could not be placed to advantage. No one would know what their value was on a given day, because the transactions in them would be private and unrecorded. The opportunities for fraud would be multiplied a hundred fold. The mobility for capital afforded by the corporation would be meager and inadequate if the holder of its bonds and shares did not know that at any moment he could take them to the exchanges and sell them. The publicity prevailing in stock-exchange quotations gives the holder of a security not only the direct benefit of publicity, but the opinion of the most competent financiers of Europe and America. If they were dealing with him privately, they might withhold the information. But the quoted price stands as a guide to even the most ignorant holder of securities.

The second benefit is in affording a test of the utility to the community of the enterprises which solicit the support of investors. The judgment of experts is there expressed, through the medium of price, on the utility of the object dealt in. If an unprofitable railroad is built in the wilderness of Manitoba, the investor does not have to hunt up information on the freight and passengers carried: he has only to look at the quotations on the New York State Exchange to know at once the judgment of experts on it as a commercial venture. If the investor finds that the stocks of cotton mills are declining, he makes up his mind that there are no further demands for cotton mills. If stocks are exceptionally high, he knows that the public demands

<sup>32</sup>Adapted from *Wall Street and the Country*, pp. 88-116. Copyright by the author, 1904.

more cotton mills, and that an investment in them will prove profitable. All this information is put before the investor in a single table of figures. It would be practically unattainable in any other form. Thus there is afforded to capital throughout the world an almost unfailing index of the course in which new production should be directed.

Suppose for a moment that the stock markets of the world were closed, that it was no longer possible to learn what concerns were paying dividends, what their stocks were worth, how industrial establishments were faring. How would the average man determine how new capital should be invested. He would have no guide except the most isolated facts gathered here and there at great expense and trouble. A great misdirection of capital and energy would result. The stock market is the great governor of values—the guide which points the finger to where capital is needed and where it is not needed.

The very sensitiveness of the stock market is one of its safeguards. Again and again it is declared in the market reports that certain events have been discounted. As a consequence when the event actually happens, it results in no such great disturbance to values as was expected. Is it not better that this discounting of future possibilities should occur? Is it desirable that capital and production should march blindly to the edge of a precipice and then leap off, instead of descending a gradual decline? This discounting of the market enables the man who holds a given security to convert it into money without being ruined. It enables the prudent man to hold on to his securities and even to buy those of the frightened and more excited.

Another important influence of the stock exchange is that which it exerts upon the money market. The possession by any country of a large mass of salable securities affords a powerful guarantee against the effects of a severe money panic. If in New York there arises a sudden pressure for money, the banks call in loans and begin to husband their cash. If they hold large quantities of securities salable on the London or Paris or Berlin market, a cable order will effect the sale of these in an hour, and the gold proceeds will soon be available. These securities prevent sudden contraction and expansion in the rate of loans. This influence of the stock market has much the effect of a buffer upon the impact of two solid bodies. Crises are prevented when they can be prevented, and when they cannot they are anticipated, and their force is broken. Securities are in many cases better than money. If a large shipment of money has to be made from New York to London, it is much more economical to ship securities of the same amount than to ship kegs of gold. Credit is forwarded by cable and the securities follow by mail. All markets

are thus brought into touch with each other, and respond to a fluctuation of a fraction of one per cent, but without the confusion and crash which would ensue if every sudden pressure for money was felt upon a market naked of such securities.

There is another important consideration in this influence of the stock market upon modern society, which will perhaps gather up and bring into a clearer light some of the other points which have been made. The stock market, by bringing all values to a level in a common and public market, determines the direction of production in the only way in which it can be safely determined under the modern industrial system of production in anticipation of demand. It does so by offering the highest price for money and for the earnings of money at the point where they are most needed. It is only through the money market and the stock exchange together that any real clue is afforded of the need for capital, either territorially or in different industries. Capital is attracted to securities that are selling high because the industries they represent are earning well. Consequently there results a closer adjustment of production to consumption, of the world's work to the world's need, than would be possible under any other system.

## I. THE DOMINANCE OF BUSINESS

### 105. A Pecuniary Order<sup>33</sup>

BY HERBERT J. DAVENPORT

Modern society is distinctly a pecuniary society, a society of business. Despite the fact that society was not always pecuniary—has, indeed, been so only for the narrowest margin of years out of a long human history, and may remain so only for the next short swing of the pendulum in the life of man—the political economy that we must study today is the political economy of today. Mainly, under present conditions, we produce for the market, we exchange, despite the fact that a few generations ago the contrary was the truth. And at present we produce in the larger part for a competitive, impersonal world-market. Money is the focusing-point of modern business affairs. It is the standard of values simply because in a society producing for exchange it is the one established intermediate commodity. Through credit, the money economy lays hold upon even the distant future. Thus more and more, as society has advanced from a society of isolated production through a barter economy to a money economy, as it is now moving over into a credit economy, money is really in new and

<sup>33</sup>Adapted from *The Economics of Enterprise*, pp. 21-23. Copyright by the Macmillan Co., 1913.



marvelous ways taking on a still greater emphasis. More and more, and more and more exclusively, and over an ever widening field of human effort, human interests and desires and ambitions fall under the common denominator of money.

Doubtless many of the best things in life do not get bought and sold. Some of them are not exchangeable; and not all things that could be transferred are men weak enough to sell or other men strong enough to buy. Not every man has his money price. But most good things do, in greater or less degree, submit to the money appraisal. Health is easier for him who can take his ease and who has the wherewithal to pay for good foods and medicines, to travel, to employ good nursing, and to command capable physicians and efficient surgeons. And, in their degree, also, love and pity and respect and place are bought and sold upon the market. It takes a goodly number of dollars to get a child safely born, and even more dollars to achieve for one's self a respectable burial.

Much money is power over many things. Money is the standard of value in the sense that all values of all exchangeable things are expressed in terms of it. And this holds, not only of all commodities and services, but of all incomes and of all capitals. The capital of a banking-house, or a factory, or a railroad company is not a congeries of tangible things, but a pecuniary magnitude—so many dollars. All economic comparisons are made in money terms, not in terms of subsistence or of beauty or of artistic merit or of moral deserving. This same standard tends to become, also, the test and measure of human achievement. Men engage in business, not solely to earn a livelihood, but to win a fortune in a pecuniary sense. To win by this money test is to certify one's self tangibly and demonstrably as having scored in the most widespread and absorbing of competitions. Is one a great artist—what do his pictures sell for? Or what is the income of this leading advocate? or of that famous singer? How great are the author's royalties? The pecuniary standard tends to be carried over into non-pecuniary fields.

It is almost past belief how far both in degree and in direction money valuations pervade all our thinking. Cheapness is prone to be synonymous with ugliness, richness with beauty, elegance with expensiveness. No one can tell for himself where the really aesthetic begins and the sheer pecuniary ends. In the field of morals, also, the so-called cash-register conscience is an actual thing. And one might go still farther and note that almost all great political issues, and almost all absorbing social problems, and almost all international complications rest upon a pecuniary basis. Our national problems are tariff, labor unions, strikes, money, trusts, banking, currency, railroads, con-

servation of resources, shipping, taxation. Success in elections, in the selection of senators, in the making of laws, and in the selection of judges is prone to be desired for financial ends and to be decided by pecuniary means. Diplomatic complications hinge upon trade connections, the open door, fisheries and sealeries, colonies for markets, and spheres of influence for trade.

#### 106. Competition and Association<sup>34</sup>

BY HENRY CLAY

What effect has the pressure of competition on the relations of the firms and individuals that make up the business community? We can usually trace the effect of any continuous pressure in the structure of a body; we can do so in this case in the structure of economic society. Competition gives rise to a series of conflicting interests and a series of common interests among competing firms. The conflicting interests lead them to stand alone, the common interests lead them to associate. Thus, according as we look at it from the point of view of the conflicting or the common interests, we shall see society as an assembly of competing or an assembly of associated units.

First the conflicting interests. The different trades compete, forward for society's income, backward for the agencies of production and the service of the transport, power, and implement industries. What one has, another cannot have. Districts and countries compete for custom—for the market, as we say—and for raw materials and other requisites of production. In each trade at each stage, the different firms compete, each anxious to get as big a share of the whole trade as possible, each anxious to get its materials and the means of production specialized to its business as cheaply as possible. The individuals of society compete with one another in two capacities; they compete as consumers and they compete as producers. As consumers they could all probably do with more than they get; they would all certainly prefer to pay the lowest price for their goods at which they could get them if they were the only consumers for them. Similarly they compete as producers; each has some labor to sell, or else the use of some land or capital. The price each can get depends upon the price that other people will accept for their labor, land, and capital. Thus everywhere we find the conflicting interests which we commonly associate with the word "competition," and, because this conflict of interests is so obvious, we are inclined to forget or ignore the correlative community of interests which the conflict creates.

<sup>34</sup>From *Economics: An Introduction for the General Reader*, pp. 119-22. Copyright by Macmillan and Co., 1916; by the Macmillan Co., 1918.

How does competition create a community of interests? It does so by its influence upon prices. Competition to sell tends to force prices down, competition to buy tends to force prices up. The mere existence of an alternative seller is a check on the power of any seller to exact the price he would like; the mere existence of an alternative buyer is a check on the power of any buyer to buy as cheap as he would like. The worker's income depends upon selling labor at a high price and buying commodities and services at a low price; it is the competition of other workers that keeps down the price that he can get for his labor, the competition of other consumers that keeps up the price of other commodities and services. Similarly with landowner and capitalist; it is the competition of other landowners and capitalists that hampers their efforts to get a higher price for the use of their land or capital. So with industries; the competition of other industries is the check on the prices they can charge; at the same time it is the check on their power to beat down the other trades, the workers, the capitalists, the landowners, from whom they buy materials and aids to production. Inside any one industry it is the competition of other firms which hampers each firm in its efforts to sell its products dear and buy its labor and its materials cheap. The members of each economic group or class therefore have a common interest in extinguishing or restricting competition within the group or class.

Thus we get the common interests of all the traders in one district as against the traders of another district. Free traders and protectionists agree as to the desirability of getting as much trade for their country as possible, they differ only to the means. As all the citizens of a country have a common interest in that country's prosperity, so have all the members of a town or industrial district in that town or district. So too we get "the interest of the trade." All the persons connected with the cotton industry have a common interest in inducing the public to prefer cotton to woolen shirts. Within the boundaries of their trade they may quarrel among themselves as to the disposal of the price of the shirts, but they are united in their hostility to wool or linen. They all, from the humblest operative to the biggest manufacturer, stand to gain by a growth in the demand for cotton goods.

Within each trade, again, while there is conflict between the different firms at every stage, the stages have each a common interest which will somehow serve as a basis for common action. Manufacturers all agree that retailers get more than their fair share of the profits of an industry, and they will all act together to prevent their

exaction. The retailers, on the other hand, will form retailers defense leagues to protect themselves against the exactions of the manufacturers. All the firms at each stage of a manufacturing process from the preceding stage and in selling their work as dear as possible have a common interest in getting as cheap as possible what they take to the succeeding stage. To come to individual firms, while employer and employed do not always constitute a happy family, they have some interest in common. The employer wants as big a share of the trade as possible, and his employees stand to gain if he succeeds. They may get no bigger wages than they would get if the firm were unsuccessful, but they gain something in regularity and security of employment. When we come back to the final agents of production—land, labor, and capital—while landowners compete with one another, laborers with one another, and capitalists with one another, no one who is interested in politics is likely to forget that there is a "landed interest," a "capitalistic interest," and a "labor interest."

Thus everybody in our present economic society stands in two relations to the other members of the society, in a relation of conflicting and in a relation of common interest. Both these relations spring from the same cause—the prevalence of what, for want of a better word, we call "competition." Competition tends to force us to struggle, fight, conflict with our neighbors; the desire to relieve ourselves from the pressure of competition compels us to combine, associate, co-operate with our neighbors. We associate with our competitors in one economic group, in order to compete more effectively with other groups.

#### 107. The "Planlessness" of Production<sup>35</sup>

BY WESLEY C. MITCHELL

With technical experts to guide the making of goods, business experts to guide the making of money, lenders to review all plans requiring large investments, and government to care for the public welfare, it may seem that the money economy provides a staff and a procedure adequate to the task of directing economic activity, vast and difficult though that task may be. This impression is strengthened by observing that each class of business leaders is spurred to efficiency and deterred from recklessness by danger of pecuniary loss. The engineer who blunders is discharged, the enterpriser who blunders goes into bankruptcy, the lender who blunders loses his

<sup>35</sup>Adapted from *Business Cycles*, pp. 37-40. Copyright by the author, 1913. Published by the University of California Press.

money. Thus the guides who misdirect the industrial army are always being eliminated. On the other hand, those who succeed are constantly being promoted to posts of wider power.

With this powerful stimulus of industrial efficiency, the money economy unites an opportunity for co-operation on a grand scale. By paying money prices, the lenders can enlist the aid of laborers who contribute work of all kinds, of expert advisers who contribute special knowledge, of landlords who contribute the uses of their property, and of investors who contribute the uses of their funds. And all these classes can be made to work in disciplined order toward the execution of a single plan.

The union between encouragement of individual efficiency and opportunity for wide co-operation is the great merit of the money economy. It provides a basis for what is unquestionably the best system for directing economic activity which men have yet practiced. Nevertheless, the system has serious limitations.

1. The money economy provides for effective co-ordination of effort within each business enterprise, but not for effective co-ordination of effort among independent enterprise.

The two schemes differ in almost all respects. Co-ordination within the enterprise is the result of careful planning by experts; co-ordination among independent enterprises cannot be said to be planned at all; rather is it the unplanned result of natural selection in a struggle for business survival. Co-ordination within an enterprise has a definite end—the making of profits; co-ordination among independent enterprises has no definite end, aside from the conflicting aims of the several units. Co-ordination within an enterprise is maintained by a single authority possessed of power to carry its plans into effect; co-ordination among independent enterprises depends upon many different authorities contending with each other, and without power to enforce a common program except so far as one can persuade or coerce others. As a result of these conditions co-ordination within an enterprise is characterized by economy of effort; co-ordination among independent enterprises by waste.

In detail, then, economic activity is planned and directed with skill; but in the large there is neither general plan nor general direction. The charge that "capitalistic production is planless" therefore contains both an important element of truth and a large element of error. Civilized nations have not yet developed sufficient intelligence to make systematic plans for the sustenance of their populations; they continue to rely upon the badly co-ordinated efforts of private

initiative. Marked progress has been made, however, in the skill with which the latter efforts are directed.

2. But the managerial skill of business enterprises is devoted to money-making. If the test of efficiency in the direction of economic activity be that of determining what needs are most important for the common welfare and then satisfying them in the most economical manner, the present system is subject to a further criticism. For, in nations where a few have incomes sufficient to satisfy trifling whims and where many cannot buy things necessary to maintain their own efficiency, it can hardly be argued that the goods which pay best are most needed. It is no fault of business leaders that they take prospective profits as their guide. They are compelled to do so; for the men who mix too much philanthropy with business soon cease to be leaders. But a system of economic organization which forces men to accept so artificial an aim as pecuniary profit cannot guide their efforts with certainty toward their own ideals of public welfare.

3. Even from the point of view of business, prospective profit is an uncertain flickering light. Profits depend upon two variables, on margins between selling and buying prices, and on the volume of trade. These are related to each other in unstable fashion and each subject of perturbations from a multitude of unpredictable causes. That the system of prices has its own order is clear; but it is not less clear that the order fails to afford certainty of business success. Men of long experience and proved sagacity often find their calculations upset by conjunctures which they could not anticipate. Thus the money economy confuses the guidance of economic activity by interjecting a large element of chance into every business venture.

4. The hazards to be assumed grow greater with the extent of the market and with the time that elapses between the initiation and the fruition of an enterprise. But the progress of industrial technique is steadily widening markets, and requiring heavier investments of capital for future production. Hence the share in economic leadership that falls to lenders, that of receiving the various chances offered them for investment, presents increasing difficulties. And a large proportion of these investors, particularly the lenders in long time, lack the capacity and the training for the successful performance of such work.

These defects in the system of guiding economic activity and the bewildering complexity of the task itself allow the processes of economic life to fall into those recurrent disorders which constitute crises and depressions.

108. Making the Price-System Work<sup>36</sup>

BY MORDECAI EZEKIEL

The price mechanism is the central control-board of our whole economic system. Market prices, in their vacillating swings, serve a twofold function. They warn producers when to expand and when to contract; they tell consumers when to buy more and when to husband their resources. Are too many automobile tires being made and offered for sale? Their prices will soon warn manufacturers. Is the wheat crop so short that there is not quite enough to go round? The price shoots up; some consumers use other commodities or go without; the wheat goes to those who are willing to pay the highest prices.

Harsh though it may be, the machine does do the job; it distributes the available supply among those who want it most, each individual's wants being "weighted" by his income, and it tends to divert resources and human energy from the production of things of which there is too much, relatively, to the production of those things of which there is not enough.

But in actual practice it does not all work as perfectly as all this. If no outside causes ever came in to disturb the course of events, and if supply were adjusted as soon as the price got "out of line," we would soon reach a state where every person and every resource was performing the most effective service of which it was possible. But the hard facts of life prevent the development of this ideal condition. If there is anything certain about life it is its uncertainty. The farmer must plant with only a guess as to what he will harvest. The style of the moment may be gone tomorrow or may reign for a year. A political reversal or a war in some distant country may completely upset well-laid plans. The knowledge that we have of the possibilities of our resources, and the technique wherewith to use and apply them, are both being pushed irresistibly onward, so that the most advanced practice of today may be "dead as the dodo" a decade hence. Each change amid these conditions disturbs the balance between product and product, between industry and industry, and readjustments must be made.

One further hard fact complicates matters. Time is an essential ingredient in human affairs. Production cannot be instantaneously increased, while with many products operations once started must be carried through or heavy losses must be faced.

Many productive sequences require an extended period of time. Wheat must be planted a half-year before it can be harvested. It takes a calf two or three years to ripen into a dairy cow. It may take

<sup>36</sup>1925.

years before new cement factories can be designed and built, filled with machinery designed for them, supplied with raw material, and provided with a management and labor force. If in any industry there are too few or too many workers of a given type, it may take years or even decades before the slow processes of human change can effect the readjustment.

As a result of time that it takes for most changes to become effective, readjustments in production tend to lag behind the shifts in costs and prices which cause them. And since adjustments lag, they frequently go too far. The "hog cycle" is an almost classical example. When hog prices are high, farmers tend to expand breeding. But it takes from a year to eighteen months from the time the decision is made to affect market receipts or hog prices. So farmers go on building up their breeding herds, ignoring the fact that a large enough increase to supply the demand has already taken place. When the expanded supplies eventually reach the market, prices break, and production is cut down, and, as new supplies come to market, the accumulated increase further depresses prices and holds them down for a considerable period. Thus by the time the heavy marketing is over, breeding herds have been reduced too much; prices rise once more; and the cycle begins again. This same cycle is characteristic of many other commodities.

Obedying the behests of current prices will not solve the problem. If prices are to prove a better guide to production, the entrepreneur must look beyond the price as such to the factors which it reflects. He must use the records of these basic factors in the past as a basis on which to forecast relations for the future. What will be the effective demand when the proposed production is ready for market? How large an increase in supply will it have to compete with? How does the past history of the industry indicate that future conditions will be affected by present conditions?

At present many lines of activity are being conducted more with an eye to the future than to the present. The telephone companies are laying out plans for exchanges to handle increased business of several years ahead. Factories of many kinds are preparing to produce in increasing volume for a growing population. The Authority of the port of New York is gradually reorganizing the port facilities to meet the demands of the city of half a century hence.

But in most kinds of work the forward look, if any, is more a guess than a forecast. "Tomorrow will be another today" seems to be the rule under which a great part of our economic activity is conducted.

Modern statistical methods furnish a way to make effective the forward look. In many industries conditions one year, two years, or



even five years hence will result from the effect of forces already in operation. To find what these forces are, to measure them and see how they have reacted on price before, to show how they are related—that is the problem to which modern economic statisticians are addressing themselves. With such information the business man can plan his production intelligently. Instead of relying on a “hunch,” he may proceed with the assurance that the chances are six or seven or even nine out of ten of his being right.

In many cases prices have failed to adjust production to demand because of the lags involved. By using them not only as indications of the present situation, but also as guides to future conditions, the business men may make them more useful. Finally, by going clear back of price to the basic facts involved and studying them directly, they may adjust production to coming demands and maintain the balance between the two with much less waste. This process will involve no sacrifices of the wonderful elasticity and flexibility of the price mechanism itself.

To this end, facts, facts, and still more facts are needed about the industry and the larger economic world to which it belongs. Complete knowledge, aided by an economic and statistical analysis to show “what the figures mean,” will do much toward tuning up the whole productive and distributive mechanism. It will make of a productive process a smoother and more effective operation.

## V

### PROBLEMS OF THE BUSINESS CYCLE

Under the simple conditions assumed in the last division, the problem of the organization of industrial life was found to present many bewildering aspects. But placed in a developing society it becomes doubly bewildering. None of the economic and ethical questions which were noted have disappeared and the new setting adds its own quota of problems.

The disturbing elements in the larger situation are closely associated with those regularly recurring phenomena which are usually called "crises" and "depressions." It was once held that these played havoc with "economic gear and cogs," throwing the "industrial machine" "out of joint," or leaving it "half stalled." Such conditions were looked upon as abnormal; they were thought to create problems of a mechanical character; they called for the services of the industrial mechanism. But, the damage once repaired, the "industrial machine" could run its prosperous course until another catastrophe threw "the monkey-wrench into the machine."

Recent analysis, however, has shown that the matter is not so simple as all this. Two closely related lines of movement converge to produce these disturbances. The first is the development of the industrial system. This involves change in technique, in organization, in markets, and in the demand for goods. The instruments of production are largely specialized; labor is mobile only within fixed limits; and only newly accumulated capital is possessed of this characteristic. Capital values are based upon the earnings anticipated in view of the known and predictable, not the novel, elements in the situation. Particular productive goods are turned out with an expectation that they will be used in the production of particular consumptive goods. The system as a whole has far too much of rigidity successfully and immediately to adapt itself to those radical changes. Yet so delicate is the system that anything which affects a particular industry is certain to have an appreciable effect upon the whole.

The second is "the rhythm of business activity," or the economic cycle. A depression, characterized by conservatism in business and financial activity, gradually leads to an improvement in conditions; as business expands a spirit of optimism arises, and stimulates further expansion; the latter reacts upon the feeling of optimism and causes it to assume a tone of overconfidence, which leads to "flush times" and feverish activity; sooner or later business overshoots the mark, losses occur, and perhaps a crisis, contraction is necessary, and a depression again appears. The cycle is a closed one; it has no logical beginning and no consummation. From lean to fat to lean years it ever runs its varied round.

But the situation is further complicated by the different behavior of different industries and industrial agents during the cycle. If the price scheme were such that values as a whole could be quickly readjusted to meet new conditions, much trouble might be avoided. But such is not the case. Sheer necessity alone must be depended upon to establish the lower price level. But businesses occupy different strategic positions; the baker and the manufacturer of steel rails are likely to be affected in different ways by price-making forces at different stages of the cycle. The man with fixed salary and the employee whose contract runs in terms of a few months or weeks are on a

different footing. The result is that all values do not go up or go down together. The output of various industries, similarly, do not increase or decrease together. Yet all of these industries are involved in a delicate system that calls for nice adjustments.

It is these movements which are responsible for the facts that no two cycles—or crises—are alike; that the cycle varies greatly in length, in sweep, and in intensity, and that a myriad of dissimilar theories have been put forward to account for them, few of which contain no germ of truth.

Its spectacular character has singled out the crises for particular attention almost to the exclusion of the more important "flush times" and depressions. It is not surprising that antecedent business and industrial conditions are often overlooked, and crises are explained in terms of monetary standards and banking systems. Undoubtedly our banking laws in the past have made our crises unusually severe. The elasticity of credit and note-issue secured by the recent currency act should do much to relieve financial stringency when a crisis arises. It should also do something to prevent its occurrence. But those who expect it to cause the industrial process to pursue a more even course are likely to be disappointed.

The violence of the ebb and flow of business activity increases tremendously the difficulty of properly organizing society through price. It also reveals grave breaks in the organization. Capital is insecure and funded wealth may disappear overnight. The cycle is associated with a rhythm of overemployment, non-employment, and underemployment. The capitalists and laborers whose products satisfy marginal wants are put in a very precarious economic position. The crisis destroys wealth, specialized talent, and organization, all of which must be replaced.

The economic cycle involves the whole industrial system. No simple device will arrest the violence of its rhythm. It can be reached only by a complex of many complementary measures. If we are to control the cycle—we must learn to control the introduction of new technique; the demand for goods must be steadied; we must develop an art of predicting business conditions; a means must be found for co-ordinating recently accumulated capital and opportunities for investment; a higher sense of responsibility in making loans must be developed by the bankers; a feeling of responsibility must be engendered in the promoter; and means must be devised for checking the speculative mania.

In time, as our very rapid industrial development slows up, the sweep of the economic cycle may be expected to be less extreme. Then perhaps we shall hear complaints about a prosaic age that has no speculative prizes to dangle before the eyes of investors to tempt them to take chances with unknown opportunities. Then, perhaps, men will point to the "golden age" of the past, when unexploited opportunities were on all sides. They may go so far as to conclude that our violent fluctuations in business were a small price to pay for our rapid industrial development.

## A. THE DELICATE MECHANISM OF INDUSTRY

### 109. The Delicate Organization of Industry<sup>1</sup>

BY THORSTEIN VEBLEN

Under the old order, when those in whose hands lay the discretion in economic affairs looked to a livelihood as the end of their endeavors, the welfare of the community was regulated "by the skill, dexterity, and judgment with which its labor was generally applied."

<sup>1</sup>Adapted from *The Theory of Business Enterprise*, pp. 179-82. Copyright by Charles Scribner's Sons, 1910.

What would mar this common welfare was the occasional disastrous act of God in the way of unpropitious seasons and the like, or the act of man in the way of war and untoward governmental exactions. Price variations, except as conditioned by these intrusive agencies, had commonly neither a wide nor a profound effect upon the even course of the community's welfare.

Until the machine industry came forward, commerce, with its handmaid, banking, was the only branch of economic activity that was in any sensible degree organized in a close and comprehensive system of business relations. "Business" would then mean commerce and little else. This was the only field in which man habitually took account of his own economic circumstances in terms of price rather than in terms of livelihood. Price disturbances, even when they were of considerable magnitude, seem to have had grave consequences only in commerce, and to have passed without being transmitted much beyond the commercial houses and the fringe of occupations subsidiary to commercial business.

Crises, depressions, hard times, brisk times, periods of speculative desire, "cras of prosperity," are primarily phenomena of business. They are in their origin and primary incidence phenomena of price disturbance, either of decline or advance. It is only secondarily, through the mediation of business traffic, that these matters involve the industrial process or the livelihood of the community. They affect industry because industry is managed on a business footing, in terms of price and for the sake of profits. So long as business enterprise habitually ran its course within commercial traffic proper, apart from the industrial process as such, so long these recurring periods of depression and exaltation began and ended within the domain of commerce. The greatest field for business profit is now afforded, not by commercial traffic in the stricter sense, but by the industries engaged in producing goods and services for the market. The close-knit, far-reaching articulation of the industrial processes in a balanced system, in which the interstitial adjustments are made and kept in terms of price, enable price disturbances to be transmitted throughout the industrial community with such celerity and effect that a wave of depression or exaltation passes over the whole community and touches every class employed in industry within a few weeks. Somewhat in the same measure as the several modern industrial peoples are bound together by the business ties of the world-market do these peoples also share in common any wave of prosperity or depression which may initially fall upon any one member of the business community of nations.

110. The Spirit of Business Enterprise<sup>2</sup>

BY WESLEY C. MITCHELL

Money economy has attained its fullest development in our own day under the influence of machine production. Its essential feature is that economic activity takes the form of making and spending money incomes. Instead of producing the goods their families require, men "make money," and with their money incomes buy for their own use goods made by unknown hands. The economic comfort or misery of the modern family, accordingly, depends not upon its efficiency in making useful goods and its skill in husbanding supplies, but upon its ability to command an adequate money income and upon its pecuniary thrift. Even in years when crops are short and mills are idle, the family with money need not go cold or hungry. But the family without money leads a wretched life even in years of abundance. Always the elaborate co-operative process by which a nation's myriad workers provide for the meeting of each other's needs is brought into precarious dependence upon the factors which determine the prospects of making money.

For purposes of making money men have gradually developed the modern business enterprise—an organization which seeks to realize pecuniary profits upon an investment of capital by a series of contracts for the purchase and sale of goods in terms of money. Business enterprises of the full-fledged type have come to occupy almost the whole field in finance, wholesale trade, railway and marine transportation. They dominate mining, lumbering and manufacturing. In retail trade they play an important rôle, and in agriculture they have secured a foothold. But, despite this wide extension of business aims and methods, there still remain broad differences of degree between the enterprises typical of the several fields of effort. In size, in complexity of organization, in dependence on the money market, in singleness of business aim, the typical farm and the small retail store are not comparable with the typical corporate enterprises of transportation, mining and finance.

This uneven development of business organization in different fields is highly important. For it is within the circles of full-fledged business enterprise that the alterations of prosperity and depression appear most clearly. Branches of trade which are not organized elaborately are much less susceptible both to the stimulus of prosperity and to the inhibition of depression. In country districts, for

<sup>2</sup> Adapted from *Business Cycles*, pp. 21-26. Copyright by the author, 1913. Published by the University of California Press.

example, the pace of activity is subject to seasonal but not to cyclical changes such as occur in factory towns. The farmers are never thrown out of work except by bad weather, and they are never overrushed except by seed-time and harvest. In other words, the scope and intensity of prosperity and depression appear to depend upon the extent and the perfection of business organization.

No less important is the thoroughgoing interdependence of business enterprises. As a plant concerned with the handling of commodities, the typical enterprise is one cog in a great machine. Our industries are carried on by sets of nominally independent plants which pass on goods to each other. For example, one series embraces wheat-growers, grain-carrying railways, elevators, flour mills, wholesale dealers in provisions, bakeries, and retail distributing agencies. Each set of members in such a series is dependent upon the preceding set for its chief supplies and upon the succeeding set for its chief vent. Further, no industrial series is self-sufficing. Each set of enterprises in our example, from the farms to the retail agencies, is industrially dependent on other industrial series which equip it with buildings, machines, fuel, office supplies, etc. A peculiar mutual dependence exists between the whole mass of industries and the railways. Coal-mining and the steel trade also touch practically every industrial establishment. Since the transfers of goods are maintained by contracts of purchase and sale, each enterprise is affected by the fortunes of its customers, its competitors, and the purveyors of its supplies. Financial interdependence is also in part but another aspect of the industrial and commercial bonds. Complicated relationships of debtor and creditor arise from the purchase and sale of goods on credit, and make the disaster of one enterprise a menace to many.

A business enterprise may participate in the work of providing the nation with useful goods or it may not. For there are divers ways of making money which are positively detrimental to future welfare. But it is more important that even the enterprises which are making useful goods do so only so far as the operation is expected to serve the primary business end of making profits. Any other attitude is impracticable under the system of money economy. For the man who allowed his humanitarian interests to control his business policy would soon be forced out of business. From the business standpoint the useful goods produced are merely by-products of the process of earning dividends. A clear appreciation of this fact is necessary to an understanding of the relations between industry, commerce, and business. For the well-being of the com-

munity, efficient industry and commerce are vastly more important than successful money-making. A panic which did not interrupt the making and distributing of wares desired by the community would be no great disaster. But the whip-hand belongs to business. In practice, industry and commerce are thoroughly subordinated to it. The ebb and flow of contemporary economic activity is primarily concerned with the phenomena of business traffic—that is, of money-making.

Business prosperity depends upon the factors which control present and prospective profits, together with present and prospective ability to meet financial obligations. Profits are made by connected series of purchases and sales. Accordingly the margin between the prices at which goods can be bought and sold are the fundamental condition of business prosperity. Just as the ever-recurring changes within the system of prices affect business prosperity and through it national welfare, so do changes in national welfare and business prosperity react upon prices. A period of business expansion causes an interminable series of readjustments in the prices of various goods. These readjustments in turn alter the pecuniary prospects of the business enterprises which buy or sell the commodities affected, and thereby start new changes in business prosperity. With the latter changes the process begins anew. Prices once more undergo an uneven readjustment, prospects of profit become brighter or darker, business prosperity waxes or wanes, prices feel the reflex influence of the new business situation—and so on without end.

### 111. The Interdependence of Prices<sup>3</sup>

BY WESLEY C. MITCHELL

The prices ruling at any given time for an infinite variety of commodities, services, and rights which are being bought and sold constitute a system.

The prices which retail merchants charge for consumers' commodities afford the best starting-point for a survey of this system. These prices are loosely connected with each other; for an advance in the price of any commodity usually creates an increased demand for other commodities which can be used as substitutes, and thus favors an advance in the price of the substitutes. They are, however, more closely related to the prices for the same goods which shopkeepers pay to wholesale merchants, and the latter to manu-

<sup>3</sup> Adapted from *Business Cycles*, pp. 27-32. Copyright by the author, 1913. Published by the University of California Press.

facturers. There is, of course, wide diversity between the number of members and in the margins between the successive prices in the series. These margins are usually wider in retail than in wholesale trade; wider on perishable goods than on durable staples; wider when the manufacturer sells directly to the consumer than when merchants intervene; wider when a monopolist can fix prices in his own favor, etc. But these diversions are themselves prices in the series for each kind of commodities form a tolerable business basis for making profits out of the process of supplying the community with goods.

The business men engaged in squeezing money profits out of these price-margins are seldom able to keep the whole difference between buying and selling prices. From retailers to manufacturers they require various commodities, services, and rights for the efficient control of their operations. For such producers' goods they have to pay out prices which eat into the profit-margins of the goods in which they deal. The most important classes of producers' goods are raw materials, buildings and machinery, labor, loans, leases, transportation, insurance, and advertising. It is difficult in many of these cases to connect directly the prices which figure as costs with the margins upon which particular commodities change hands. For the cost prices are usually paid for the pecuniary advantage of the enterprise as a whole, and the accruing benefits extend to many transactions and cover a long time. The like is true of manufacturers.

With the exception of labor, producers' goods are provided, like consumers' goods, by business enterprises operating on the basis of margins between buying and selling prices. Hence the price of a given goods is related not only to the prices of the consumers' goods in the production of which it is used, but also to the prices of the various other producers' goods employed in its own manufacture. Thus the prices of producers' goods form the beginnings of new series of relationships which run backward with countless ramifications and never reach definite stopping-points. Even the prices of raw materials in the hands of the ultimate producers are related intimately to the prices of the labor, current supplies, machinery, buildings, land, loans, etc., which the farmers, miners, etc., employ.

The price of labor may seem to bring the series to a definite stop at least at one point. For in most cases the laborer does not have a business attitude toward the production of his own energy. But the price which the laborer can command is connected with the



prices of the consumers' goods which established habit has made into a standard of living. At this point, therefore, analysis of the interrelations between prices brings us, not to a full stop, but back to our starting-point, the prices of consumers' goods.

We must also take account of the prices of business enterprises themselves. Occasionally established business enterprises are sold outright. But the most important transactions of this class are stock-exchange dealings. That the prices of whole business enterprises or of shares in them are intimately related to the prices which have been discussed is clear; for these prices depend primarily upon present and prospective profits, and the latter upon price-margins and the volume of business transacted.

There remains for consideration the prices paid for heterogeneous personal services. These include domestic service, medical attendance, instruction, many forms of amusement, etc. The furnishing of such services contrasts with business traffic in consumers' goods, loans, transportation, etc. For systematic organization has not been developed to so high a point, business motives do not have such unrestricted scope, and the wares are not standardized in equal measure. Moreover, the prices people are willing to pay are based rather on personal needs and income than on calculated chances of profit. The prices of these services therefore form the most loosely organized and irregular division of the system of prices.

This classification of prices assists in seeing the relations which bind all prices together and make them a system. Many price relations are already sufficiently clear, but several lines of relationship should be indicated more definitely:

1. On the side of demand almost every good has its possible substitutes. Through the continual shifting of demand changes in the price of one commodity are often communicated to the prices of its substitutes, from the latter to the prices of their substitutes, and so on. An initial change, however, usually becomes smaller as it spreads out in widening circles.

2. Similarly, on the side of supply, almost every good has genetic relationships with other goods, made of the same materials, or supplied by the same set of enterprisers. Particularly important are the genetic relationships based upon the use of the same producers' goods in many lines of trade. Floating capital, transportation, labor, machinery, etc., enter into the cost of most commodities. Accordingly a changed price established for one of these common producers' goods in any important use may extend to a great diversity of other uses, and produce further price disturbances.

3. Closely connected with this genetic relationship through com-

mon producers' goods is the relationship through business competition, both actual and potential. In so far as effective competition exists, a state of price-margins which makes any one trade more or less profitable than other trades in the same market cannot long maintain itself.

4. Present prices are affected by prices of the recent past and the anticipated prices of the near future. Indeed, present prices are largely determined by past bargains, with established time contracts. Thus the price system has no definable limits in time. No analysis can get back to the ultimate term in the endless series of bargains which helped to make the prices of the present.

5. Nor has the series of prices any logical beginning or end. At whatever point analysis may start to follow the interlocking links, to that point analysis will come if it proceeds far enough. The system of prices is an endless chain.

Prices then form a highly complex system of many parts connected with each other in diverse ways, a system infinitely flexible in detail, yet stable in the essential balance of its interrelations, a system like a living organism in its ability to recover from the serious disorders into which it periodically falls.

The most significant thing about it is the function it performs in the economic life of nations. It serves as a social mechanism for carrying on the processes of providing goods. For prices are the means which make possible the elaborate exchanges, and the consequent specialization which characterizes the modern world. They are the source from which family income is derived, and the means by which goods are obtained for family consumption; for both income and most of living—the two jaws of the vise in which the modern family is squeezed—are aggregates of prices. Prices also render possible the rational direction of economic activity by accounting, for accounting is based upon the principle of representing all the heterogeneous commodities, services, and rights with which a business enterprise is concerned in terms of money price. Most important of all, the margins between different prices within the system hold out that hope of pecuniary profit which is the motive power that drives our business world.

## 112. The Sensitive Mechanism of Credit<sup>4</sup>

BY HAROLD G. MOULTON

It has become almost a trite saying that credit is the very life-blood of commerce and that without its wonderful assistance the

<sup>4</sup> Adapted from an article with the foregoing caption in a volume as yet unpublished, 1915.

enormous business of the modern world would be quite impossible. It is a commonplace, also, that the credit structure is a very uncertain mechanism, one that periodically expands to a breaking-point and involves hundreds of businesses in financial ruin, and indirectly demoralizes the commerce of an entire country. The precise manner in which this credit structure is built up, however, with its intricate and complicated interrelations, is not usually clearly understood. It is the purpose of the following analysis to trace these intricate relations, and show the complicated interdependences in the fabric of commercial credit.

Commerce relates to the movement of goods from the hands of those who perform the first operation in production to their final resting-place with the ultimate consumers. Commercial credit connects itself, therefore, with the various purchases and sales that are made in the slow process of marketing commodities. The nature and place of credit in the marketing process may perhaps best be made clear by assuming first a society that does business on a cash basis only.

To illustrate the process let us begin with some raw materials in the form of iron ore and coal which are to be manufactured into farm machinery for sale to farmers. These raw materials normally pass through the hands of the following classes of business men: (1) the manufacturer of machinery; (2) the wholesale dealer; (3) the retail merchant from whom they are purchased by the farmer. In the absence of credit the producer of raw materials would have to possess enough capital to defray the cost of producing these materials. He would sell them for cash to the manufacturer, who pays for them with ready money. In turn, the manufacturer, after having converted the materials into finished machines, sells them in a new form to the wholesale dealer, who pays for them out of funds accumulated for the purpose. The wholesaler next passes them on to the retailer for cash; and the retailer disposes of them to the farmer for cash. In each case cash accumulated and in hand ready for payment is the significant feature. We have thus far, however, but half completed the commercial circle.

The farmer does not purchase the machinery as an end in itself. With it he produces crops for sale. He sells his annual produce to a local dealer for cash; the local dealer sells these products to the commission merchant for cash; the commission merchant passes them on for cash to a retail store; and the storekeeper sells them for cash to his customers, who happen to be, let us assume, the laborers in the mines of iron and coal who were the original producers of the

raw materials that went to the making of farm machinery. Thus we have the complete round of production.

In the foregoing analysis we have assumed each sale to be for cash; no one waits for his payments, and all keep the slate clear as they go. With such a method there is little danger of a general breakdown. If a purchaser has not the cash with which to pay for goods, he is refused the sale. Hence the seller is never dependent upon the future solvency of his purchaser. Sales may be restricted by a slackening of the industrial process; but there are never maturing obligations to meet, and there is never a chain of failures each due to the previous one. Let us now introduce credit into the system as outlined above.

It is evident that the farmer who buys the farm machinery is the ultimate demander of the raw materials purchased by the manufacturer, and of course of the finished machines handled by the wholesaler and retailer respectively. In final analysis the farmer's cash pays for the labor of the workers in the mines of iron and coal. Or, traveling around the circuit in the opposite direction, it is the laborer's cash that really pays for crops of the farmer that have been produced by the farm machinery. Without credit, however, it is impossible for the precise cash paid by the farmer to the retailer to be used by the latter in paying the wholesaler and so on up to the producer of the raw materials. In introducing credit into this system it will be necessary to assume for the moment a situation that does not represent the actual state of affairs. The corrective will be given in the paragraph following.

Let us assume that the producer of raw materials possess enough to produce \$10,000 worth of raw materials, paying his laborers in advance. Now let us assume he sells these materials to the manufacturer on twelve months' time, that is, he agrees to wait twelve months for his pay. The manufacturer in the course of three months converts these raw materials into finished machinery and sells the machines on nine months' time to the wholesaler. In a month the wholesaler disposes of the machinery, letting the retailer have eight months in which to pay. In another month the retailer sells the machines to a farmer, agreeing to wait seven months. Four months later the farmer sells his crops on three months' time to a local dealer, who sells them in a month to a commission merchant on two months' time; the commission merchant in turn selling on one month's time to a retail store; and the retailer disposes of them within a month to the laborers who work in the mines for cash received by them for producing raw materials. Cash would thus be paid to the retailer

of farm produce just twelve months from the date of the first sale of the raw materials; and if this cash should be passed on promptly through the hands of the commission merchant, local dealer, farmer, retailer, wholesaler and manufacturer to the original producer, it can liquidate all the obligations as per schedule.

In actual practice, however, twelve months would be a long time for the producer to wait for his payment. Similarly the periods of nine, eight and seven months would be too long for the others to wait; for further production would be more or less halted meanwhile. In practice, therefore, credit extensions are for much shorter periods, usually from one to four months, whether it be the producer of raw materials, the manufacturer, or the middlemen. How is this made possible?

The manufacturer, for instance, may give his note to the producer for three months, and pay as soon as he sells to the wholesaler. The question now is, where does the wholesaler get the funds with which to pay; does he not have to wait until the retailer has disposed of the goods? This is where the banks come to the assistance of commerce. The wholesaler sells to the retailer on time, but instead of delaying his payment to the manufacturer, he procures a loan from his bank, giving as security therefor the notes received from the retailer. With this loan the wholesaler may pay the manufacturer at once. The loan from the bank is repaid when the retailer settles with the wholesaler. The bank therefore undertakes the waiting instead of the dealer.

In the foregoing illustration it was the wholesaler who procured the loan from the bank. It may in fact, however, be any one or several in the chain of buyers and sellers. The manufacturer, for instance, instead of asking the wholesaler to pay cash could accept a promissory note, and then sell this note to a bank for cash, that is, have it discounted. Or the retailer might borrow from a bank and pay cash to the wholesaler. Similarly, on the other side of the circle, the commission merchant may pay cash to the local dealer, borrowing from a bank for the purpose; and the retailer of the foodstuffs may sell to his customers on credit, and borrow from a bank while waiting for his returns. It is quite immaterial which party procures the assistance of the banks; though in practice it usually becomes the custom for only certain ones in the chain to do so. In this country it is usually the manufacturers and the commission merchants who pay cash.

The commercial structure which we have thus outlined is seen to be very closely interrelated; and it is because of this interde-

pendence of factors that a "credit breakdown" has such far-reaching consequences. The credit circle cannot be disrupted at any point without more or less seriously disrupting the entire system. Suppose, for instance, that a long drouth or heavy rains ruin the agricultural produce and render it impossible for the future to pay the retailer as promised. This affects the retailer's ability to pay the wholesaler, and in turn the wholesaler's ability to pay the manufacturer, or his bank, and so on around the entire circle. Or suppose a strike in the manufacturing establishment should prevent the manufacturer from filling his selling orders. It becomes impossible for him to pay the producer on time; and the latter in turn becomes unable to meet his obligations as they become due. The halting of the manufacturing process may compel the producer to restrict his output of raw materials, and hence discharge laborers. This affects the sales of the retailer of the farm produce, and hence his ability to pay the commission merchant, and so on around the circle. Numerous other examples of this sort might obviously be given.

Whenever there is a break in the delicate structure at any point, there is always an attempt to stop the gap by calling upon the banks for assistance. Whoever finds himself unable to pay on time rushes to his banker for a loan. Indeed if there is but a well-grounded fear that difficulties are likely to come, dealers often go at once to the banks for loans in anticipation of trouble to come. Without going into an analysis of the responsibility thus placed upon the banking institutions, it should be emphasized that the success with which a community may pass through a period of disrupted credit operations depends upon the ability of the banks to expand their own credit sufficiently to tide the commercial world over the emergency.

## B. THE ECONOMIC CYCLE

### 113. The Sensitiveness of Industrial Society<sup>5</sup>

BY LEON C. MARSHALL

Our pecuniarily organized, interdependent society is naturally enough a sensitive society, sensitive both to demand and to shock.

Almost any organization of society would be sensitive in some degree to demand. In a socialistic society, for example, it is to be expected that desires and demands would change from time to time and that the industrial structure would be altered to meet the situa-

<sup>5</sup> From *Readings in Industrial Society: A Study in the Structure and Functioning of Modern Economic Organization*, pp. 415-16. Copyright by the University of Chicago, 1918.

tion. How quickly the structure would be altered is another matter. It is not probable that it would be altered as quickly as in our present society. In a society organized on the gain basis bribes (sometimes of tremendous size) are continually awaiting the early comers in any readjustment, and punishments (sometimes of tremendous size) are continually awaiting the laggards. Indeed, desire for gain even causes us to stimulate new demands.

Any interdependent society will be sensitive to shock—this by hypothesis. If the society is interdependent, one section cannot be indifferent to the events occurring in another section. Of course different societies would be sensitive to shock in varying degrees. In general terms an interdependent society organized on a pecuniary basis is probably more sensitive to shock than would be a socialistic society. The gain structure transmits the shock at a speed comparable to the speed involved in the reactions of the nervous system. Even more, in our society the shock may very well grow in the process of transmission. The failure of a small business unit may very well cause the failure of a large one, and this of one still larger, and so on more or less indefinitely. It is probable that the shock could be more readily confined to a relatively small territory in a small socialistic community than is the case today.

In all of this there is, or should be, no implication of judgment being passed. There are many respects in which it is fortunate and many respects in which it is unfortunate that our society is exceedingly sensitive both to demand and to shock. For our present purpose the essential need is to see that our society is sensitive and to realize that if we desire to retain the gains of society, organized in such a way as to bring about this sensitiveness, we must be alert to cope with the disadvantages.

#### 114. The Rhythm of Business Activity<sup>6</sup>

BY WESLEY C. MITCHELL

With whatever phase of the business cycle analysis begins, it must take for granted the conditions brought about by the preceding phase, postponing explanation of these assumptions until it has worked around the cycle and come again to its starting-point.

A revival of activity, then, starts with a legacy from depression: a level of prices low in comparison with the prices of prosperity, drastic reductions in the costs of doing business, narrow margins of

<sup>6</sup>Adapted from *Business Cycles*, pp. 571-79. Copyright by the author, 1913. Published by the University of California Press.

profit, liberal bank reserves, a constructive policy in capitalizing business enterprises and in granting credits, moderate stocks of goods, and cautious buying.

Such conditions are accompanied by an expansion in the physical volume of trade. Though slow at first, this expansion is cumulative. In time an increase in the amount of business which grows more rapid as it proceeds will turn dullness into activity. Left to itself this transformation is effected by slow degrees; but it is often hastened by some propitious event, such as exceptionally profitable harvests, or heavy purchases of supplies by the government.

A partial revival of industry soon spreads to all parts of the business field. For the active enterprises must buy materials and current supplies from other enterprises, the latter from still others, etc. Meanwhile all enterprises which become busier employ more labor, use more borrowed money, and make higher profits. There results an increase in family incomes and an expansion of consumers' demands, which likewise spreads out in ever-widening circles. Shopkeepers pass on larger orders to wholesale merchants, manufacturers, importers, and producers of raw materials. All these enterprises increase the sums they pay to employees, lenders, and proprietors. In time the expansion of orders reaches back to the enterprises from which the initial impetus was received, and then the whole complicated series of reactions begins afresh at a higher pitch of intensity. All this while the revival of activity is instilling a feeling of optimism among business men.

The cumulative expansion of the physical volume of trade stops the fall in prices and starts a rise. For, when enterprises have in sight as much business as they can handle with existing facilities, they stand out for higher prices on additional orders. This policy prevails because additional orders can be executed only by breaking in new hands, starting new machinery, or buying new equipment. The expectation of its coming hastens the advance. Buyers are anxious to secure large supplies while the quotations continue low, and the first signs of an upward trend bring out a rush of orders.

The rise of prices spreads rapidly; for every advance puts pressure on someone to recoup himself by advancing the prices of what he has to sell. The resulting changes in price are far from even: retail prices lag behind wholesale, and the price of finished products behind the price of their raw materials. Among the last-mentioned the prices of mineral products reflect changed business conditions more regularly than do the prices of forest and farm products. Wages rise more promptly, but in less degree than wholesale prices; interest rates on long loans always move sluggishly in the earlier stages of



revival, while the prices of stocks both precede and exceed commodity prices on the rise.

In a great majority of enterprises larger profits result from these divergent fluctuations coupled with the greater physical volume of sales. For while the prices of raw materials and of bank loans often rise faster than selling prices, the prices of labor lag far behind, and the prices making up supplementary costs are mainly stereotyped by old agreements.

The increase of profits, under the spell of optimism, leads to a marked expansion of investments. The heavy orders for machinery, the large contracts for new construction, etc., which result, swell still further the physical volume of business, and render yet stronger the forces which are driving prices upward.

Indeed, the salient characteristic of this phase of the business cycle is the cumulative working of the various processes which are converting a revival of trade into intense prosperity. Not only does every increase in the volume of trade cause other increases, every convert to optimism make new converts, and every advance in price furnish an incentive for new advances; but the growth of trade also helps to spread optimism and to raise prices, while optimism and rising prices support each other. Finally the changes going forward swell profits and encourage investments, while high profits and heavy investments react by augmenting trade, justifying optimism, and raising prices.

While the processes just sketched work cumulatively for a time to enhance prosperity, they also cause a slow accumulation of stresses within the balanced system of business—stresses which ultimately undermine the conditions upon which prosperity rests.

Among these is the gradual increase in the cost of doing business. The decline in supplementary costs per unit ceases when enterprises have secured all the business they can handle with their standard equipment, and a slow increase in these costs begins when the expiration of old contracts makes necessary renewals at higher rates. Meanwhile prime costs rise at a relatively rapid rate. The price of labor rises both because of an advance in nominal wages and because of higher rates for overtime. More serious is a decline in the efficiency of labor, because of the employment of undesirables, and because crews cannot be driven at top speed when jobs are more numerous than men. The prices of raw material rise faster on the average than the selling prices of products. Finally numerous small wastes creep up when managers are hurried by the press of orders.

A second stress is the accumulating tension of investment and money markets. The supply of funds available at the old rates fails

to keep pace with the swelling demand. It becomes difficult to negotiate new issues of securities except on onerous terms, and men of affairs complain of the "scarcity of capital." Nor does the supply of bank loans, limited by reserves, grow fast enough to keep up with the demand. Active trade keeps such an amount of money in circulation that the cash left in the banks increases rather slowly. On the other hand, the demand for loans grows, not only with the physical volume of trade, but also with the rise of prices, and with the desire of men of affairs to use their own funds for controlling as many businesses as possible.

Tension in the bond and money markets is unfavorable to the continuance of prosperity, not only because high rates of interest reduce the prospective margins of profit, but also because they check the expansion of the volume of trade out of which prosperity develops. Many projected ventures are relinquished because borrowers conclude that interest would absorb too much of their profits.

The group producing industrial equipment suffers especially. In the earlier stages of prosperity this group enjoys exceptional activity. But when the market for bonds becomes stringent and the cost of construction high, business enterprises defer the execution of plans for extending old or erecting new plants. As a result contracts for this kind of work become less numerous as the climax of prosperity approaches. Then the steel mills, foundries, machine factories, lumber mills, construction companies, etc., find their orders for future delivery falling off.

The larger the structure of prosperity, the more severe become these internal stresses. The only effective means of preventing disaster while continuing to build is to raise selling prices time after time high enough to offset the encroachment of costs upon profits, and to keep investors willing to contract for fresh industrial equipment.

But it is impossible to keep selling prices rising for an indefinite time. In default of other checks, the inadequacy of cash reserves would ultimately compel the banks to refuse a further expansion of loans on any terms. But before this stage has been reached, the rise of prices is stopped by the consequences of its own inevitable inequalities. These become more glaring the higher the general level is forced; after a time they threaten serious reductions of profits to certain business enterprises, and the troubles of these victims dissolve that confidence in the security of credits with which the whole towering structure of prosperity has been cemented.

In certain lines in which selling prices are stereotyped by law, by contracts for long terms, by custom, or by business policy, selling prices cannot be raised to prevent a reduction of profits. In other

lines prices are always subject to the incalculable chances of the harvests. In some lines the recent construction of new equipment has increased the capacity for production faster than the demand for the wares has expanded under the repressing influence of high prices. The unwillingness of investors to let fresh contracts threatens loss not only to the contracting firms but to the enterprises from which they buy materials. Finally the success of some enterprises in raising prices fast enough to defend their profits aggravates the difficulties of the men who are in trouble.

As prosperity approaches its height, then, a sharp contrast develops between the business prospects of different enterprises. Many are making more money than at any previous stage in the business cycle. But an important minority faces the prospect of declining profits. The more intense prosperity becomes, the larger grows this threatened group. In time these conditions bred by prosperity will force radical readjustment.

Such a decline of profits threatens consequences worse than the failure to realize expected dividends. For it arouses doubt about the future of outstanding credits. Business credit is based primarily upon the capitalized value of present and prospective profits, and the volume of credits outstanding at the zenith of prosperity is adjusted to the great expectations which prevail when affairs are optimistic. The rise of interest rates has already narrowed the margins of security behind credits by reducing the capitalized value of given profits. When profits begin to waver, creditors begin to fear lest the shrinkage in the market rating of business enterprises which owe them money will leave no adequate security for repayment. Hence they refuse renewals of old loans to enterprises which cannot stave off a decline in profits, and press for settlement of outstanding accounts.

Thus prosperity ultimately brings on conditions which start a liquidation of the huge credits which it has piled up. And in the course of this liquidation prosperity merges into crisis. Once begun the process of liquidation extends rapidly, partly because most enterprises called upon to settle put similar pressure on their own debtors, and partly because news presently leaks out and other creditors take alarm.

While this financial readjustment is under way, the problem of making profits is subordinated to the more vital problem of maintaining solvency. Business managers nurse their financial resources rather than push their sales. In consequence the volume of new orders falls off rapidly. The prospect of profits is dimmed. Expansion gives place to contraction. Discount rates rise higher than usual, securities and commodities fall in price, and working forces are

reduced. But there is no epidemic of bankruptcy, no run upon banks, and no spasmodic interruption of ordinary business processes.

Crises, however, may degenerate into panics. When the process of liquidation reaches a weak link in the chain of interlocking credits and the bankruptcy of some conspicuous enterprise spreads unreasoning alarm, the banks are suddenly forced to meet a double strain—a sharp increase in the demand for loans and in the demand for repayment of deposits. If the banks meet both demands, the alarm quickly subsides. But if many solvent business men are refused accommodation at any price, and depositors are refused payment in full, the alarm turns into a panic. A restriction of payments by banks gives rise to a premium upon currency, to hoarding of cash, and to the use of various unlawful substitutes for money. Interest rates may go to three or four times their usual figures, causing forced suspensions and bankruptcies. There follow appeals to the government for extraordinary aid, frantic efforts to import gold, the issue of clearing-house loan certificates, and an increase in bank-note circulation as rapidly as the existing system permits. Collections fall into arrears, workmen are discharged, stocks fall to extremely low levels, commodity prices are disorganized by sacrifice sales, and the volume of business is violently contracted.

There follows a period during which depression spreads over the whole field of business and grows more severe. Consumers' demand declines in consequence of wholesale discharge of wage-earners. With it falls the business demand for raw materials, current supplies, and equipment. Still more severe is the shrinkage in the investors' demand for construction work of all kinds. The contraction in the physical volume of business which results from these shrinkages in demand is cumulative, since every reduction of employment causes a reduction in consumers' demand, thereby starting again the whole series of reactions at a high pitch of intensity.

With this contraction goes a fall in prices. For when current orders are insufficient to employ the existing equipment, competition for business becomes keener. This decline spreads through the regular commercial channels which connect one enterprise with another, and is cumulative, since every reduction in price facilitates reductions in other prices, and the latter reductions react to cause fresh reductions at the starting-point.

The fall in prices is characterized by certain regularly recurring differences in degree. Wholesale prices fall faster than retail, and the prices of raw materials faster than those of manufactured products. The prices of raw mineral products follow a more regular course than those of forest or farm products. Wages and interest

on long-time loans decline in less degree than commodity prices. The only important group of prices to rise is high-grade bonds.

The contraction in the volume of trade and the fall in prices reduce the margin of present and prospective profits, spread discouragement, and check enterprise. But they also set in motion certain processes of readjustment by which the depression is overcome.

The prime costs of doing business are reduced by the fall in the prices of raw material and of bank loans, by the marked increases in the efficiency of labor which comes when employment is scarce, and by closer economy by managers. Supplementary costs are reduced by reduction of rentals and refunding of loans, by writing down depreciated properties, and by admitting that a recapitalization has been effected on the basis of lower profits.

While costs are being reduced, the demand for goods begins slowly to expand. Accumulated stocks left over from prosperity are exhausted, and current consumption requires current production. Clothing, furniture and machinery are discarded and replaced. New tastes appear among consumers and new methods among producers, giving rise to demand for novel products. Most important of all, the investment demand for industrial equipment revives. Capitalists become less timid as the crisis recedes into the past, the low rates of interest on long-time bonds encourages borrowing, and contracts can be let on most favorable conditions.

Once these forces have set the physical volume of trade to expanding, the increase proves cumulative. Business prospects become gradually brighter. Everything awaits a revival of activity which will begin when some fortunate circumstance gives a fillip to demand, or, in the absence of such an event, when the slow growth of the volume of business has filled order books and paved the way for a new rise in prices. Such is the stage of the business cycle with which the analysis begins, and, having accounted for its own beginning, the analysis ends.

## C. TYPICAL THEORIES OF CRISES

### 115. The Fruits of the Exploitation of Labor<sup>7</sup>

BY FRANK K. FOSTER

Once in about so many years this country is afflicted with what we call "hard times." It is a striking instance of the limitations of human wisdom that the wise men have not been able to diagnose the causes of such periodic bad spells. It will not answer to place the

<sup>7</sup>Adapted from "Who Does It?" in *The Causes of Industrial Panics in the United States*, pp. 16-18. Published by the Chicago Federation of Labor, 1903.

responsibility upon causes beyond human control. Somebody is to blame. Who is it?

The industrial world is complex. A thousand and one influences play upon it. Fictitious values are created. Watered stocks and inflated mergers act as sponges to soak up the products of honest effort. Speculative pools force up prices abnormally. All these things help to bring about crises.

But there is one simple and all-pervasive question, rarely if ever taken into account, which explains much; one condition which, more than any other, works toward the glut of markets and the periodic depression of industry. This axiomatic proposition may be formulated thus:

So long as those who produce wealth do not receive for their labor a return sufficient to enable them to buy back the equivalent of what they themselves produce, congestion is inevitable and depressions will recur. These depressions will vary in frequency and intensity in direct ratio to the discrepancy between values earned and received.

The term "producers of wealth" is by no means confined to those who work with their hands. The rational estimate must accord its full weight to those who direct, invent, organize, and simplify processes of production. But, when all else is said, the laborer, as making up the great bulk of the market for staple products, is the main factor, and his wage-rate and consequent standard of living must acutely modify the demand for manufactured products.

The working of this principle can best be seen by application. Suppose, for illustration, that the wages and standard of living of all American mechanics were to be at once crowded down to the level of the laborer recently arrived from Southern Europe. It requires little perspicacity to foretell the result of such a metamorphosis on American manufactures. There would be almost immediately wholesale stoppages in all those thousand and one industries now supported by the home market.

But that which is true in the extreme case is also true in degree in the rise and fall of wages in narrower margins. A decrease of 10 per cent in wages all along the line in American industry means that hundreds of millions of dollars less will be spent for manufactured products. And every reduction in wages operates in the same direction, while every increase—up, of course, to the absorption of the full margin of profit—means a stimulation of the market.

It is not the millionaires who use up the products of most wealth-producers, but the people of moderate means, who depend upon their daily labor for their daily bread. Consequently, panics will recur until the margin of profit in the production of commodities goes to the producer instead of to the speculator or the exploiter.

116. The Impossibility of Overproduction<sup>a</sup>

BY JOHN STUART MILL

Dearth, or scarcity, on the one hand, and oversupply, or, in mercantile language, glut, on the other, are incident to all commodities. Because this phenomena of oversupply may exist in the case of any one commodity, many persons have thought that it may exist with regard to all commodities; that there may be a general overproduction of wealth, and a consequent depressed condition of all classes of producers.

The doctrine seems to me to involve so much inconsistency in its very conception that I feel considerable difficulty in giving any clear statement of it. In general, the theory is that there may be an excess of productions in general beyond the demand for them; that when this happens, purchasers cannot be found at prices which will repay the cost of production; that there ensues a general depression of prices. The advocates of this theory maintain that the accumulation of capital may proceed too fast; and enjoin the rich to guard against this evil by an ample unproductive consumption.

When writers speak of the supply of commodities outrunning the demand, it is not clear which of two elements of demand they have in view: the desire to possess or the means to purchase. In this uncertainty it is necessary to examine both suppositions.

First, let us suppose that the quantity of commodities produced is not greater than the community would be glad to consume. It is possible, in that case, that there should be a deficiency of demand, for want of the means of payment. Those who think so cannot have considered what it is which constitutes the means of payment for commodities. It is simply commodities. All sellers are inevitably buyers. Could we suddenly double the productive powers of the country, we should double the supply of commodities in every market; but we should also double the purchasing power. Everyone would bring to the market a double demand as well as supply. It is probable that there would be a superfluity of certain things. If so, the supply will adapt itself accordingly, and the values of things will continue to correspond to their cost of production. At any rate, it is sheer absurdity that all things should fall in value, and that all producers should be insufficiently remunerated. If values remain the same, what becomes of prices is immaterial, since the remuneration of producers depends upon how much of consumable articles they obtain for their goods.

But it may perhaps be supposed that it is not the ability to purchase,

<sup>a</sup>Adapted from *The Principles of Political Economy*, II (1848), 105-13.

but the desire to possess, which falls short; that those who have the means do not make the wants, and those who have the wants are without the means. A portion, therefore, of the commodities produced may be unable to find a market.

This form of the doctrine is more plausible and does not involve a contradiction. There may easily be a greater quantity of any commodity than is desired by those who have the means to purchase it, and it is abstractly conceivable that this might be the case with all commodities. The error is in not perceiving that though all who have an equivalent to give might be fully provided with every consumable article which they desire; the fact that they go on adding to the production proves that this is not actually the case. Whoever brings additional commodities to the market brings an additional power to purchase; he also brings an additional desire to consume, since if he had not that desire he would not have troubled himself to produce. At most, it can be argued that the demand may be for one thing and the supply may unfortunately consist of another.

Driven to this last resort, an opponent may perhaps allege that there are persons to produce and accumulate from mere habit. They continue producing because the machine is ready mounted, and save and reinvest their savings because they have nothing on which they care to expend them. Such cases are possible, but do not affect our conclusion. For, what do these persons do with their savings? They invest them productively; that is, spend them in employing labor. Now will the laboring class also know what to do with it? Are we to suppose that they, too, have their wants perfectly satisfied, and go on laboring from mere habit? Until the working classes have also reached the point of satiety, there will be no want of demand for produce. Thus, in whatever manner the question is looked at, the theory of general overproduction implies an absurdity.

### 117. Sun-Spots and Crises<sup>9</sup>

BY W. STANLEY JEVONS

I have long felt convinced that a well-marked decennial periodicity can be traced in the activity of trade and the recurrence of commercial crises. Evidence shows that trade reached a maximum of activity in or about the year 1701, 1711, 1721, 1732, 1742, 1753, 1763, 1772, 1783, 1793, 1805, 1815, 1825, 1837, 1847, 1857, 1866. These years, whether marked by the bursting of a commercial panic or not, are corresponding years, and the intervals vary only from 9 to 12 years.

<sup>9</sup>Adapted from "The Periodicity of Commercial Crises and Its Physical Explanation," *Investigations in Currency and Finance* (1878), pp. 207, 214-16.



There being in all an interval of 165 years, broken into sixteen periods, the average length of these periods is about 10.3 years. But the dates 1701 and 1711 are not well established and the panic of 1866 was probably precipitated by the fall of Overends, Gurney & Co. Judging by the events of 1837, 1847, and 1857, we should probably place the proper date of the collapse in 1867. If we compare the unquestionable collapse of 1721 with 1867, the average interval is 10.43 years; if we prefer to compare 1721 with 1857, in which year there was an undoubted collapse, then the mean interval becomes 10.46. As the year 1763 was also a year of well-marked crisis, it is instructive to compare it with 1857, which gives the average interval just 10.44 years, which falls nearly between the previous results and may be accepted as the most probable. Now it is very curious to bring this result in connection with the statement of Mr. J. A. Brown that his investigations led him to the conclusion that the cycle for sun-spots was 10.45 years. His conclusion agrees with that previously obtained by Dr. Lamont. Judging by this close coincidence of results according to the theory of probabilities, it becomes highly probable that the two periodic phenomena, varying so nearly in the same mean period, are connected as cause and effect.

These periodic variations in industrial activity are frequently attributed to mental action. A commercial panic, it is held, is the destruction of belief and hope in the minds of merchants and bankers. Though I agree, I can see no reason why the human mind, in its own spontaneous action, should select a period of just 10.44 years to vary in. Surely we must go beyond the mind to its industrial environment. Merchants and bankers are continually influenced in their dealings by accounts of the success of harvests, the comparative abundance or scarcity of goods; and when we know that there is a cause, the variation of the solar activity, which is just of the nature to affect the produce of agriculture, and which does vary in the same period, it is almost certain that the two sets of phenomena, credit cycles and solar variations, are connected as cause and effect.

### 118. The Neo-Jevonian Theory<sup>10</sup>

BY ALVIN S. JOHNSON

We have no lack of theories—some of them extremely ingenious—setting forth the causes and conditions of crises. Most of these unfortunately are vitiated by a propagandist purpose. Just as the practical politician ascribes depression to the tariff, so the economist is likely

<sup>10</sup>Adapted from "Causes of Crises," *New Republic*, II, 17-19. Copyright, 1915.

to find the cause in social conditions of which he disapproves. Theorists who approve of the existing order on general grounds are disposed to assign a separate cause to each crisis. So of the outstanding fact of periodicity of crises we have hitherto had no satisfactory explanation. Accordingly, we may regard as an event of great practical and scientific importance a new book on economic cycles by Professor Moore.

The author attempts to apply the newer mathematics to the analysis of economic facts. For a generation or more students of meteorology have occupied themselves with cyclical variations in climate; and these variations, affecting as they must the production of agricultural staples, have an obvious bearing upon economic conditions. Professor Moore has attacked the climate problem anew and shows that so far as rainfall is concerned—the most important element—the climate of our middle western agricultural territory is characterized by great cycles of approximately thirty-three years, and by lesser cycles of approximately eight years. An analysis of crop statistics shows that the yield per acre of staple crops correlates very closely with the rainfall cycles thus established. Agricultural prices are high in lean years and low in fat ones; nevertheless, the price variations are inadequate to counterbalance the variations in yield. Accordingly, the purchasing power exerted by agriculture varies in cycles that are identical with the rainfall cycles. Thus agricultural prosperity and depression are already explained.

Next, as to the effect on industry. Professor Moore analyzes the statistics of pig-iron production—the “barometer of business”—and finds that with due allowance for the secular upward trend in production, the figures reveal cycles corresponding with the rainfall cycles, but lagging after by an interval of about two years. Finally, a study of general prices—the *indicia* of prosperity and depression—brings to light corresponding cycles, with a lag, however, of about four years. Thus is established the dependence of all the complex phenomena of economic cycles upon the simple underlying phenomenon of the meteorological cycle.

### 119. Capitalization and Crises<sup>11</sup>

BY FRANK A. FETTER

Capitalization runs through all industry. The value of everything that lasts for more than a moment is built in part upon income which is not actual, but expectative, whose amount, therefore, is a matter of guesswork, or speculation. Many unknown factors enter into the

<sup>11</sup>Adapted from *Principles of Economics*, pp. 353-54. Copyright by the Century Co., 1904.

estimate of future incomes. The universal tendency to rhythm in motion manifests itself in an overestimate or underestimate of income. Most men follow a leader in investment as in other things. The spirit of speculation grows until it becomes almost a frenzy and people rush toward this or that investment, throwing capitalization in some industries far out of equilibrium with that in others.

The use of credit enhances the rhythm of price. A large part of business is done on margins. If the value of a thing fully paid for falls in the hands of the owner, he alone loses; but if the value of a thing only partially paid for falls so much that the owner is forced to default in his payment, the loss may be transmitted along the line of credit to everyone in the series of transactions. A credit system, highly developed, is a house of cards at a time of financial stress. There is an element of credit in almost all business. Entrepreneurs enter into strenuous rivalry to secure the profits of a rise, ever hoping to get out whole before the crisis comes.

The fundamental cause of crises thus is seen to be psychological; it is the rhythmic miscalculation of incomes and of capital value, occurring to some degree throughout industry. This is given full opportunity for action only when certain favoring objective conditions are present. Most noteworthy of these is the dynamic condition of industry. The past century has opened up new fields of investment on an unexampled scale. New machinery and processes have given undreamed-of opportunity for enterprise. Such factors disturb the equilibrium of prices both in time and space, give a powerful stimulus toward higher values, and stimulate the hopes of all investors. When the balance between the capitalization of various industries and between the incomes of various periods proves to be false, the inevitable readjustment causes suffering and loss to many, but particularly in the inflated industries. But, because of the mutual relations of men in business, few even of those who have kept freest from speculation can quite escape the evils.

## 120. The Lagging Adjustment of Interest<sup>12</sup>

BY IRVING FISHER

Few persons realize how central a rôle interest plays in all business phenomena. Interest is the link connecting each year with the next. Every plan and contact involving time must be made partly in terms of the rate of interest, even though this rate enters unperceived. We have several billions of dollars invested today in the life-insurance business. The whole structure has been calculated by assuming a law of human mortality and a rate of interest. A change of one point in the rate of interest makes an enormous change in all

<sup>12</sup>Adapted from "Gold Depreciation and Interest Rates," *Moody's Magazine*, VII, 110-14. Copyright, 1909.

these calculations. The value of all lands, all capital, all securities, depends upon the rate of interest. The importance, therefore, of having the rate properly adjusted cannot be too much emphasized. To show the necessity of an adjustment to meet a new situation let us take an example. If in 1896 it had been believed that Bryan was to be elected, that his program was to be carried out, and that in consequence there was to be enacted a veritable "50-cent dollar," it would have been necessary to increase the rate of interest by an amount equal to a sinking fund for the 50 per cent depreciation. In like manner, it is always necessary for self-protection to raise the interest rate to guard against any foreseen depreciation.

To offset such depreciation the business man does not actually have to call it by that name. Instead of considering gold as changing in value, he may consider commodities as changing in terms of gold; and instead of talking of depreciation of gold, he may speak of rise of prices. The business man who believes that prices in general will rise in the next ten years believes in effect that the value of gold will fall. He will be likely to take this fact into account in connection with every business venture or investment. The result will inevitably be a rise in the rate of interest. If, for instance, he is a borrower, rising prices will mean to him rising profits, and he will be much more ready than if prices were falling to pay high interest. On the other hand, to be tempted to lend money, he will require higher interest to insure his receiving an equivalent of the purchasing power loaned. There is thus provided a certain escape from the evils attending a foreknown change in the value of money.

Unfortunately, however, the great mass of persons do not consider the prospect of a change in the general level of prices. An investigation seeking to determine to what extent a rise in prices is actually discounted and offset shows: first, that in general when prices are rising, the rate of interest is high and therefore does to a certain extent compensate for the fall in the principal, but second, it is not usually high enough fully to compensate for this depreciation. In other words, it is only partially adjusted.

This lack of adjustment implies a transfer of the ownership of wealth from the creditor to the debtor. The investor who is shrewd enough to foresee the rise in prices will bond his business at the current rate of interest. Since this rate is lower than his business could afford to pay, the enterpriser wins at the expense of the bondholder. He will borrow more than he otherwise would because the rate of interest is lower than it should be. The borrowing class today consists of the enterprisers—precisely the men who have the greatest foresight—consequently it is the borrower, not the lender, who first foresees a rise or fall of prices. If the lender foresaw equally he would demand a higher rate of interest when prices are rising. An adequate adjustment of interest would prevent this extensive borrowing, but,

because of an inequality of foresight, a rise of prices will stimulate loans.

This is the analysis of the universally observed fact that during a period of rising prices loans are unduly stimulated. For a time larger profits are made simply because part of the lender's share goes to the borrower, and this continues until the rate of interest at last becomes sufficiently adjusted to check the loans.

A crisis is the cumulation of a period of rising prices. In the mechanism of this process, however, the main rôle is played by the rate of interest. The series of events is, I believe, in general as follows:

First, a rise in prices through any cause, such as an increased production of gold.

Second, failure at first of the rate of interest to rise enough to offset the impending fall in the value of money (rise in prices).

Third, borrowers are quicker to grasp the situation than lenders, and consequently loans are unduly extended.

Fourth, the increase of loans is accompanied by an increase of bank deposits.

Fifth, since bank deposits act as a substitute for money, a increase of bank deposits tends further to increase prices.

In other words, as a result of this chain of causes, beginning with a rise in prices, the prices will rise still further. There is thus set up a vicious circle, which will continue just as long as the rate of interest fails to make a proper adjustment to put on the brakes and prevent the overborrowing. It is odd that when the crisis comes the blame is put on the high rate of interest, in utter disregard of the fact that if the rate of interest had been higher at first, the crises would have been averted.

## 121. The Lag in Consumption<sup>13</sup>

BY JOHN A. HOBSON

The existence of a normal tendency for the rate of industrial production in the world to outrun the rate of consumption of commodities, i.e., the existence of a limited market, is attested by common experience in the business world. This belief is admittedly a chief cause of restriction of output, as practiced by workers and by capitalist combinations, and furnishes the chief support of protective tariffs and imperialist policy. This normal failure of consumption to keep pace with actual and potential production is manifestly responsible for the periodic gluts, stoppages, underproduction and unemployment, which precede and constitute cyclical depressions. Misapplication of productive power, as between one group of industries and another, one area of industry and another, though responsi-

<sup>13</sup>Adapted from *The Economics of Unemployment*, pp. 146-49. Copyright by the Macmillan Co., 1923.

ble for much waste, will be a fairly constant factor in the complex world economy, and cannot be regarded as a chief cause of the accumulating general gluts which usher in cyclical depressions. Nor is there any reason to suppose that meteorological fluctuations, affecting world-harvests, are competent to account for the size and the nature of the phenomena of trade depressions.

There is only one sort of maladjustment of economic forces adequate in nature and magnitude to explain the actual phenomena, viz., a normal tendency to apply to the production of capital-goods a proportion of the aggregate productive power that exceeds the proportion needed, in accordance with existing arts of industry, to supply the consumptive-goods which are purchased and consumed. In other words, if there exists a normal tendency to try to save and apply to capital purposes an excessive proportion of the general income, we have a valid explanation of the actual phenomena of fluctuations and depressions.

Now in the wide disparities of income between the rich and poor, and in the large elements of unearned and unneeded income which fall to the former class, we discover the required tendency to chronic oversaving, i.e., the virtually automatic accumulation of income which exceeds the customary or desired expenditure of those whose felt wants are fully satisfied. Under such conditions it is certain that the proportion between spending and saving must get out of gear, and that more production will be applied to producing larger increases of plant, raw materials and other capital goods, than are capable of full and regular use in furnishing consumable goods to consumers.

The economic checks commonly adduced, viz., the falling rate of interest as a check upon excessive saving, and the fall of prices as a stimulation of increased consumption, are both inadequate. Neither operates until the trouble has attained considerable momentum, or is effective until great waste and damage have occurred.

For these periodic movements of overaccumulation of capital overproduction, congestion of the machinery of industry, stoppages, and unemployment, with their slow unloading of excessive stocks, there can be no real remedy except a removal of the surplus elements in large incomes which brought about the disproportion between saving and spending.

The progressive movement in the economic life of the industrial nations is, in effect, though not of clear purpose, largely directed to this end. The absorption of the unearned and unneeded incomes of the rich, partly by the rising wages and standards of living of the workers, partly by the needs of a modern state, tends to bring about that equalization of incomes which is essential to a natural and right adjustment between the proportions of spending and saving in the aggregate income. The better distribution of income here envisaged, though involving a reduced proportion of saved income to spend,

would not involve a less amount of saving. For the fuller and more regular working of the machinery of industry, would produce a real income so much larger than the present that a smaller proportion of saving would yield a quantity of new industrial capital at least as large as heretofore. Nor would the necessary incentive to such saving be lacking in the new order.

If by such improvements in distribution the rates of production and consumption were so well adjusted as to reduce to small dimensions the fluctuations of employment, the largely superstitious influence of confidence and credit in the causation and enlargement of these fluctuations would tend to disappear. For the regularity of actual business operations, thus obtained, would be reflected in a steadiness of prices precluding the swift enlargements and contractions of credit which stimulate and exaggerate our cyclical fluctuations. For if the actual industrial system were kept in regular and full employment by the removal of restrictions in the market, speculation and expansion of credit would be confined to narrow limits. Once remove the opportunities which the conjunction of rising prices and unemployed productive resources afford to business men and financiers of reaping large and quick gains from getting control of large stocks in a rising market, you destroy the demand for inflated credit and the overconfidence engendered in the atmosphere of business speculation.

The roots of irregularity and fluctuation of industry lie in defects of distribution and of demand, not in the miscalculations of business men or the aberrations of the monetary system, which are but exaggerated reflections of the real facts of industry.

#### D. BUSINESS JUDGMENT AND THE CYCLE

##### 122. The Quality of Business Judgment<sup>14</sup>

The Committee believes that while the individual cannot in any large way influence the general situation or entirely avoid the losses incurred in periods of depression he can in most cases by foresight keep his business fundamentally sound. An account of some instances of the difficulties of business men will show both the complexity of the problem of business cycles and the intricate decisions which confront business managers in their daily activities.

In December, 1919, two manufacturers of silk went to their banks. One as a result of his study of business conditions—the degrees of overexpansion, inflation, and speculation—had decided that prosperity was beginning to assume the aspect of an unsafe boom. Although business was brisk and sales heavy, he told his bank that he did not propose to stock up during this period but that he would attempt to sell his goods with as rapid a turnover as possible.

The other manufacturer asked the bank for a large loan. Orders

<sup>14</sup>Adapted from *Report and Recommendations of a Committee of the President's Conference on Unemployment* (1922), pp. xiii-xvii, xxvii.

had been coming from his customers larger than those of any previous season, trade papers were emphasizing the scarcity of raw silk, traffic congestion made it seem imperative to increase his inventories, and he believed that it was necessary to expand in order to maintain his relative position in trade. The bank gave him the loan because all the customary tests, such as the "two-to-one ratio" of quick assets to liabilities, usually relied upon to justify such an extension of credit, were met. Almost immediately the tide of prosperity turned in the silk industry, as the first manufacturer had predicted, and there came a severe drop in prices of both raw material and finished product. The second manufacturer found his factories stocked with high-priced raw material and with goods produced in the belief that good times and high prices would continue. The reduced value of his inventories made him unable to liquidate his loan, and his business was virtually bankrupt.

Was it wholly a defect in judgment upon the part of the second business man for which he alone was responsible? Did the bank use proper judgment? Did it have a responsibility which it did not exercise? In the silk industry wholesale prices continued to rise until about February, 1920. Wholesalers and retailers talked of the great demand for silk and the great shortage of raw materials in the country. The men in the silk industry honestly believed that there was a lack of raw silk and that prices would continue to rise. The extent of the accumulation of speculative stocks was not realized in the trade. It was not until insurance companies discovered that the amount of silk which they had collectively insured was beyond their insurance limits that anyone understood that there was really an excess supply of silk in storage. Reacting to this news, all prices of silk dropped at once, and manufacturers, wholesalers, and retailers found themselves with huge inventories to liquidate. Manufacturers and wholesalers suffered from a general cancellation of orders, which still further added to their difficulties.

While the silk industry is peculiar in that most of the raw materials are imported, it shows the general developments leading to a depression market. It furnishes a striking example of the lack of information on the part of men within an industry as to the amount of stock in storage and the amount of stock in transit, and, finally, of failure to take into consideration the great amount of speculative buying.

In the autumn of 1919 the merchandise manager of a department store in New England began to make plans for the spring trade in one of his important lines. He knew the prices of raw and finished goods had been advancing steadily, and retailers had encountered difficulties in securing prompt deliveries. He was convinced that he must place his orders well in advance of his needs. His store, like that of other retailers, had sold an unprecedented amount of goods. Trade rumors appeared to indicate that the supply of raw materials was less than normal, and it was so difficult to secure deliveries that



retailers duplicated orders with different manufacturers in order to be assured of the delivery of part of their requirements. The merchandise manager thus decided to place in the autumn an order for the full requirements of the anticipated spring trade in 1920, for the purpose of avoiding the loss of prestige which the store would face if it were unable to supply its customers. To finance its purchases the company negotiated a bank loan at a time when money rates were rising, when wholesale and retail prices of all commodities were tending upward, and when the rapid advance—although the manager did not know this fact—had led to a good deal of speculation in the goods he wished to buy. The loan was obtained, the order given, and the result, of course, was a heavy loss.

It should be here pointed out that the retailer must carry stocks on hand. He must expect to take some losses in a period of depression. Some retailers believe that it is wise to build up a reserve in a rising market, fixing prices on a replacement value; they believe that it is good business to take losses early in a falling market by the same process of determining prices by replacement values. If information were provided to enable the retailer to change his present habits and buy "from hand to mouth" at the top of the boom and in larger quantities in a period of depression, bank credits would be relieved and cancellations decreased. It is the natural tendency at present to overstock in boom times and to stop buying in a depression.

Early in 1920 a manufacturer of pulp and writing paper contracted to buy a large supply of pulp wood in order that the company's own extensive timber lands might be reserved for later use. The large sums expended for this purpose were listed as assets on the balance sheet of the company. For the first half of 1920 the company did the largest business in its history. Early in the following autumn cancellations began to pour in, and orders for spring delivery declined 50 per cent. Despite the fact that the company seemed to be efficiently organized and had standardized its products, it was thrown into bankruptcy because of this error in judgment which caused it to accumulate raw materials at the peak of the cycle.

It might be said that our examples prove that it is the conservative manager who succeeds. The following instance of two manufacturers in the shoe industry illustrates the difference between what may be readily recognized as a conservative policy in one period of the business cycle and what just as clearly becomes a speculative policy in the other extreme of the cycle.

The first manufacturer of shoes, well along in the period of expansion received more than normal orders from his customers. He knew the industry was overexpanded but he lacked any basis for judging how to handle his business at this time. Supplies of leather were apparently very small; congested railroad conditions made it imperative to have his raw material shipped to him several weeks before it was usually necessary; prices of leather were rapidly rising. The men in the industry did not question the price at which leather

could be purchased but seemed willing to pay any price for raw material laid down at the factory. Under these conditions the manufacturer followed what must have seemed to him a conservative policy by purchasing raw material enough to cover his orders. Then came the break in leather prices; cancellations poured in, and he was unable to liquidate and experienced an enormous loss on his inventory of raw material.

Another manufacturer, under the same market conditions and at the same stage of the business cycle, convinced himself through a study of conditions that his orders were inflated and that it would be unwise to cover with raw material. He cut his orders to 25 per cent of his requirements. Other executives in his plant and particularly his sales organization opposed this policy. They prophesied not only that he would have to cover at high prices but that he would probably not be able to secure raw material at all and consequently his relative position in the industry would be destroyed. After the break this shoe manufacturer was able to purchase raw material to fill his requirements at much reduced prices, and he was able to send his sales organization into the field with a line of shoes produced at low cost, in competition with his competitors who were attempting to liquidate high-priced inventories.

It was not because one of these managers was conservative that he was more successful in coping with the problem of cyclical losses. The distinction which the Committee would emphasize is that the manager who knew and acted with reference to the fundamental facts of the relationship of his particular business to his industry and who had a sound knowledge of general business conditions from study of statistical data of trade generally was able, to a large extent, through policies planned in 1919 and 1920, to avoid the difficulties of 1921, while the manager who ran his business without reference to such factors was gambling in his most important decisions.

Another reason for reviewing these examples is to bring out the differences among industries in their relation to the general business cycle. The instances cited are interesting because the collapse of silk prices came before the depression in the shoe industry, and both came before the slump in paper. It is also of interest to point out that the drop in silk prices was one of the first signs of the general business depression and that paper was one of the last commodities to feel its full effects. The study of trends of our industries should thus become a safeguard.

### 123. Bettering Business Barometers<sup>15</sup>

BY WESLEY C. MITCHELL

The American man of affairs who seeks to keep informed about the trend of business conditions relies upon the financial columns of

<sup>15</sup>Adapted from *Business Cycles*, pp. 591-95. Copyright by the author, 1913. Published by the University of California Press.

his daily paper, one or two of the financial weeklies, and a special trade journal. The data which he can compile from these sources covers a considerable range.

Commodity prices at wholesale are represented by actual quotations and by index numbers like Bradstreet's: The prices of loans on call and on time for thirty days or six months are reported for New York, together with the market and bank rates in London, Paris, and Berlin. The prices of securities are published in detail, and to show the general trend of the market there are convenient records, such as the *Wall Street Journal's* average of twenty railway and twelve industrial stocks.

Fluctuations in the volume of business must be estimated from various sources: bank clearings, railways' gross earnings, number of idle cars, imports and exports, coal, copper, pig-iron and steel output, shipments of grain, live stock, etc. Government crop reports help to forecast the probable state of trade in various agricultural sections. Quite helpful are the reviews of business conditions in different papers.

Information about the currency is supplied by the official estimates of the monetary stock, by reports of gold imports and exports, by the recorded movements of money into and out of the New York banks, and by the figures concerning the production and industrial consumption of gold, and the distribution of money between the banks and the public. Regarding the banks there are telegraphic statements from the central institutions of Europe, as well as a variety of domestic reports from clearing-house and national and state banks.

Some idea of the volume of investment and speculation going on may be obtained from the transactions of the New York stock exchange, the number of building permits granted, the mileage of railway under construction, etc.

Last and most important, the prospects of profits are best shown for the railways, whose gross and net earnings are regularly published. The earnings of the United States Steel Corporation probably stand second in general esteem. Then comes a mass of information supplied by the reports of large corporations engaged in mining, manufacturing, banking, etc. The other side is shown by the statistics of bankruptcy compiled weekly by two great mercantile agencies.

Though far from complete, this list of materials is far too long for the average business man. To compile and analyze the available data requires more time, effort, statistical skill, and analytical ability than most men have for the task. Hence the typical individual skips

the bewildering evidence and reads only the summary conclusions drawn by the financial editor. That the studying of business barometers and the forecasting of business weather has become a profitable business affords convincing proof of the need and difficulty of using effectively the available materials. It is from such specialists that we may expect the improving and disseminating of the information required as a basis for perfecting social control over the workings of the money economy.

Professional forecasters do not find the data at hand too elaborate. What they most need to improve their forecasts is more extensive and more reliable materials to work upon. But it is also quite possible to better the use they make of the data already available.

Among the most needed additions to the list of business barometers are the following:

A general index number of the physical volume of trade could be made from data showing the production of certain staples, the shipment or receipts of others, the records of foreign commerce, etc. Much material for this purpose is already incidentally provided in official documents. Separate averages should be struck for the great departments of industry, since the difference between the relative activity in different lines would often be not less significant than the computed changes in the total.

The proposed plan for obtaining reports concerning the volume of contracts let for construction work and the percentage of work performed on old contracts merits careful consideration. Few sets of figures would give more insight into business conditions when prosperity was verging toward a crisis or when depression was endangering prosperity.

An index number of the relative prices of bonds and corresponding figures showing changes in interest rates upon long-time loans would not be difficult to prepare. Even if standing alone these two series would possess great value as reflecting the attitude of investors; but they would be still more useful if accompanied by data concerning the amounts of bonds and short-term notes put upon the market by business enterprises and by governments.

Certain states have made a beginning in providing statistics of unemployment. But we have no comprehensive data of this kind. Their value, not only as an index of welfare among wage-earners, but also as reflecting changes of activity within important industries and changes in the demand for consumers' goods, is such as to make the present lack a matter of general concern.

Most to be desired are statistics which would show the relative

fluctuations of costs and prices. Unhappily the difficulties in the way of obtaining such figures are particularly grave. But certainly every extension of public authority over corporate activity should be utilized to secure such uniform methods of accounting as have been imposed on the interested railways, and the reports obtained by the government should be made available in some significant form for the information of the business public.

The old barometers of business could also be considerably improved. The index numbers of commodity prices at wholesale would be more useful if separate series were computed for raw materials and for the articles manufactured from them, and if the raw materials were subdivided into farm, animal, forest, and mineral products. The differences between the fluctuations of these several groups would be of assistance in determining the causes, and therefore the significance of changes in the grand total. Further, an index number of identical commodities in the United States, England, France, and Germany would facilitate the effort to follow the concomitant courses of business cycles in different countries and to anticipate the reaction of foreign upon domestic conditions.

Stock prices should be computed upon the index number plan instead of in the current form of averaging actual prices of shares. To facilitate comparisons the basis chosen should agree with that chosen for commodity prices. The distinctively investment stocks should be separated from the speculative favorites, and separate averages should be struck for railways, public utilities, and industrials. By proper selection fluctuations in the prices of industrial stocks might be made to reflect the fortunes of enterprises especially concerned with providing industrial equipment.

Reports of clearings would be more useful if accompanied by provided for the centers in which financial operations, industrial index numbers showing the relative magnitude of the changes in the actual amounts. Separate averages for these figures should be activity, and agricultural conditions are the dominant factors. Finally, one of the darkest points of current business conditions in America could be cleared up if the rates of discount upon first-class commercial paper in these various centers could be regularly ascertained.

To extend the list of suggestions for bettering figures of the sorts already published would be easy; but enough has been said to make clear the character of the desirable changes. In general, the need is for more careful discrimination between dissimilar data now often lumped together in a single total, the collecting from new centers of data already published for New York, more uniform methods of compilation to guarantee the comparability of what pur-

ports to be similar figures, and the computing of relative fluctuations upon a common basis. In many, if not all these cases, a double set of relative figures is desirable—one set referring to actual average amounts in some fixed decade, the other set making comparisons with the corresponding period of the previous year.

#### 124. The Difficulties of Business Judgment<sup>10</sup>

BY L. D. H. WELD

Let us enumerate some of the difficulties that an industry is likely to encounter, in relating its policy to the business cycle:

1. In some industries, production and price policies have to be governed by supply of raw materials, which varies with little or no relation to business conditions. The iron and steel industry can largely control its raw-material supply, and can therefore relate its manufacturing policy, to a certain extent at least, to business conditions. Not so with many industries that are dependent on raw materials, the supply of which cannot be controlled. This is true of the leather industry, for example, where the supply of hides is a by-product of the packing industry, and cannot be shut off when business conditions are bad. The same is true, to some extent at least, of the oil refiners, because of the difficulty of controlling the output of crude oil. This situation obtains particularly in industries which rely on agricultural raw materials. Flour mills, for example, have to be governed largely by the available supply of wheat. Fruit canners are at the mercy of natural conditions, which may cause a bounteous harvest or a crop failure on the acreage for which they have contracted. The beet-sugar industry is in a similar situation.

2. Style changes affect many industries. The leather industry furnishes good examples. This industry was hit harder than most industries during the slump of 1920. But when it was losing millions of dollars on sole leather and calf skins, it was making good profits on patent leather. This was due simply to the fact that women were demanding patent leather. Bright red and green leathers were moving well last spring and summer. Nobody could have foreseen this absurd whim. The demand finally ceased more abruptly than it began.

3. Some concerns lack reliable data covering a long-enough period. They are too young to have data running back over a series of pre-war years. Others have inadequate records, especially of monthly data. Others have sufficient data, but the task of collecting it may be very wearisome.

4. New inventions and changes in industrial processes are another factor that makes it difficult to plan ahead. The automobile industry has had its effect on the carriage industry and on street-

<sup>10</sup>Adapted from "Relating Manufacturing Policy to the Business Cycle," *The Problem of Business Forecasting*, pp. 94-99. Copyright by the Pollak Foundation for Economic Research, 1924.

railway companies. It has recently been claimed that young men are spending so much in buying and maintaining automobiles that they are spending less money on clothing. Many other examples could be recalled.

5. Introduction of substitutes: The use of rubber heels, of composition soles, and of wooden heels on women's shoes has played its part in putting the sole-leather industry into a long period of distress.

6. The need of making plans far in advance: I have already referred to the problem now facing the packing industry, as to what policy it should follow in storing pork products for consumption next summer and fall. The canning industry has to make contracts during the winter for fruit and vegetables that are not yet planted, and that will be sold the next winter. The farmer's problem is difficult; he has to plan his planting or his live-stock raising several months, or even a year or more, before his product will be offered for sale.

7. Changes in government policy with regard to tariff, regulation of industry, immigration, etc.

8. Changes in foreign conditions affecting those industries that rely largely on export markets.

9. Some industries are too new to make it possible to figure out their relationship with the business cycle. The radio industry is a good example.

Many other difficulties might be mentioned. The enumeration of these difficulties suggests the reasons why some industries conform to the business cycle more closely than others. There are some whose ups and downs correspond very closely with the ups and downs of business, such as the railroads, and other public utilities, including the American Telephone and Telegraph Company, the iron and steel industry, and building construction. There are other industries, such as the leather industry, and the textiles, that conform to business conditions fairly well, but in which exceptional years frequently happen. There is a third class of industries, such as sugar refining and agricultural production, in which departure from the business cycle is more frequent than conformity.

The principal factors that determine how closely an individual business conforms to general business conditions appear to be as follows:

1. Universality of use of product manufactured, or service rendered
2. Whether an industry is new or established
3. Whether it can control the raw-material supply and output of product
4. The extent to which it depends on foreign markets
5. The extent to which it is affected by style changes
6. The extent to which it has to plan far in advance
7. The extent to which substitute articles can be used

In conclusion, it should be said that, although the difficulties

enumerated herein are formidable, at least in some industries, they are not necessarily unsurmountable. But they can be overcome only through painstaking work, and by giving particular attention to the special factors in each individual industry. The principal value of accurate forecasting to any particular business is as a measure of probable demand. If the supply cannot be controlled and cannot be foreseen, as in the case of agricultural products, complications begin. But even in the most erratic industries, business conditions are an exceedingly important factor, and attempts to relate an individual business to the business cycle are worth while.

### 125. The Problem of Forecasting<sup>17</sup>

BY C. O. HARDY

Business forecasting is founded on the theory, now generally held by economists, that prosperity and depression are not accidents, nor are they due to an entirely different set of causes each time they appear, but are rather phases of a fairly regular rhythm, each stage of which generates conditions which presently cause a transition to the next succeeding stage. Depression, improvement, prosperity, liquidation, and then depression again; each follows the other with a sufficient degree of regularity of time and intensity of movement to justify the use of the term "cycle" to describe the whole series.

Business forecasters attack their problem by one or more of three methods. In the first place, it is possible to select a few specific business conditions, concerning which there happens to be available an adequate amount of information, study the relationship which has existed between these specific conditions and the general business trend in the past, and then make forecasts based on the assumption that similar relationships will show themselves in the future. Stock-market quotations are frequently used for this purpose, the theory being that major advances in the level of general prices and the activity of trade are foreshadowed by similar movements in the stock market six or eight months ahead. Bank reserves are also a favorite forecasting index, as is pig-iron production. Most of the forecasting done by financial writers for trade and financial journals and for stock-brokerage houses and market letters is of this type.

A second method, more elaborate than the first, is to secure data on a large number of business conditions, reduce the figures to some common basis, eliminate so far as possible the influence of the variation which takes place every year from one season to another, and also the effect of the growth of the country from year to year, and then combine the results into a general average. Comparison of the behavior of such indexes at past periods may, it is claimed by the followers of this system, throw much light on the future. This

<sup>17</sup>Adapted from "Business Forecasting: Its Present Status," *Journal of Business* (May, 1923), pp. 5-7.



method is followed, with great difference in the details of the indexes, by several commercial forecasting bureaus. Because of the great amount of labor involved, this method is not practicable for the individual business man, but a moderate subscription fee enables him to obtain the results of the computations made by the services referred to.

The third method of forecasting is the method of economic analysis. Followers of this method pay very little attention to the evidence of rhythm in the movement of business, preferring to treat each situation as a new one, and seek to forecast the next situation by study of the causes at work in the present situation. In theory, this is the most scientific way of attacking any problem. The difficulty with it is that the forces which are making for change are always obscure; if they were clear to all concerned their effect would occur at once. In practice, the method used, alone, is unsatisfactory because of the extreme complexity of the data. It is easy to point out at any time certain forces which are making for a change to greater prosperity, and others which are tending to undermine it, but it is rarely possible to weigh the strength of these forces with sufficient accuracy to make valuable forecasts except in the cases of long-run tendencies. Economic analysis is indispensable as a corrective to the other methods, however.

The first and second methods can readily be combined. Whether the intention is to use the various data as they stand or to combine them into an index of general business, it is desirable to study the record with a view of determining, first, the order in which successive changes in business activity generally occur; and, second, the typical interval between them. In barest outline, the results of this sort of study, so far as it has been carried, may be stated as follows: In any period of improvement, the place where the upward trend is seen first is in a group of items which have to do with the security market. Prices, first of bonds, then of dividend-paying stocks, finally of the more speculative securities, turn upward. The number of shares traded at the New York Stock Exchange increases, and this is accompanied by an increase in the volume of clearings of New York banks. A second group of phenomena indicates the improvement in business activity about six or nine months later. This group includes wholesale prices (raw materials sooner than finished products), railway-car loadings, the number of employees on pay-rolls, business failures (which decline while the others are increasing), bank clearings, and similar direct indications of the amount of business being done. The third group, which shows its upward trend the last of all, is the set of indexes reflecting banking conditions, including reserve ratios (downward trend when others are upward), in-

terest rates, and the volume of rediscounts at the Federal Reserve banks. In a downswing the sequence is the same.

No one of these indexes can be followed blindly. In every change of business conditions, some exceptional conditions display themselves, and there is no index which always behaves in the way it usually behaves. What the forecaster must do is either to compare the results of his study of a number of these items, and make up his mind what is the preponderance of evidence, or else he must throw them together into some sort of a general average, relying on the probability that the influence of the exceptional items will be overcome by that of the items which are running "true to form."

The choice of representative data, the corrections which are necessary to make them comparable with past data and with one another, the degree of confidence which can be placed in one as compared with another, make up the subject matter of the study of business forecasting. The study is yet in its infancy, but the amount of agreement between different forecasting agencies is close enough, and the results have so far shown a sufficient degree of accuracy to make it seem worth while, not only to carry the research much farther than it has yet gone, but also to begin placing in the business curriculum a survey of the progress which has been achieved.

## E. CONTROL OF THE CYCLE

### 126. Panic Rules for Banks<sup>18</sup>

BY WALTER BAGEHOT

In time of panic, advances, if they are to be made at all, should be made so as, if possible, to obtain the object for which they are made. The end is to stay the panic; and the advances should, if possible, stay the panic. For that purpose there are two rules:

First, that these loans should be made only at a very high rate of interest. This will operate as a heavy fine on unreasonable timidity, and will prevent the greater number of applications by persons who do not require it. The rate should be raised early in the panic, so that the fine may be paid early; that no one may borrow out of idle precaution without paying well for it; that the banking reserve may be protected as far as possible.

Secondly, that at this rate these advances should be made on all good banking securities, and as largely as the public asks for them. The reason is plain. The object is to stay alarm, and nothing, therefore should be done to cause alarm. But the way to cause alarm is

<sup>18</sup>Adapted from *Lombard Street* (10th ed.; 1873), pp. 199-200.

to refuse someone who has good security to offer. The news of this will spread in an instant through all the money markets at a moment of terror; no one can say exactly who carries it, but in half an hour it will be carried on all sides, and will intensify the terror everywhere. No advances indeed need be made by which the banks will ultimately lose. The amount of bad business in commercial countries is an infinitesimally small fraction of the whole business. That in a panic the banks should refuse bad bills or bad securities will not make the panic worse; the "unsound" people are a feeble minority, and they are afraid even to look frightened for fear the unsoundness will be detected. The great majority, the majority to be protected, are the "sound" people, the people who have good security to offer. If it is known that the banks are advancing on what in ordinary times is reckoned good security, the alarm of the solvent merchants and bankers will be stayed. But if securities really good and usually convertible are refused by the banks, the alarm will not abate, the other loans made will fail in obtaining their end, and the panic will become worse and worse.

#### 127. Emergency Elasticity of Credit<sup>19</sup>

BY HAROLD G. MOULTON

Emergency elasticity of credit and loans will be secured under the currency system established by the Federal Reserve Act through what is known as rediscounting commercial paper.

Suppose the First National Bank of Joliet should, when the country is face to face with a crisis, find itself confronted with a heavy demand for commercial loans. This means that a large number of business concerns wish to borrow on their promissory notes, and receive a deposit account against which they can draw checks to meet current payments. It will be remembered that a bank must keep a certain percentage of cash reserves to deposits. Suppose now the cash of this bank is at a minimum, and that, if it makes further loans on commercial paper, the reserves will fall below the legal requirement. Under the old system the bank would have had to refuse the loans to the detriment of legitimate business enterprise. But under the new law the Joliet bank is enabled to increase its reserves, and thereby enlarge its loaning capacity by rediscounting some of the promissory notes in its possession with the Federal Reserve Bank in Chicago. Let us make this matter of rediscounting clear.

When John Jones needs money he may take a note for \$1,000

<sup>19</sup>1915.

that he holds against William Wilson to his bank in Joliet and sell it to the bank for cash. The bank will give him \$1,000 minus interest for the time the note has yet to run. What the Joliet bank does for John Jones is precisely what the Federal Reserve Bank in Chicago will do for the First National Bank of Joliet. When this bank needs cash it can take this note which it has discounted and have it discounted by the Federal Reserve Bank. The Joliet bank will get \$1,000 less the interest for the short time the note still has to run. This second discount is what is known as a rediscount. The Federal Reserve banks are, therefore, bankers' banks, and they do for the individual member banks precisely what the individual banks do for their customers generally. This ability to convert paper into cash and thereby increase its reserve enables the Joliet bank to extend loans to its customers even under severe financial pressure.

Suppose that a bank in a rural community in the Chicago district finds, in the face of an emergency, that there is a heavy demand for loans in the form of bank notes. How can the increased quantity of notes be obtained? Under the new law elasticity of note issue is gained by permitting the issue of notes secured by commercial paper or bank assets. The country bank desiring to issue more notes sends some of the promissory notes of customers to the Federal Reserve Bank in Chicago for rediscount. The latter may upon this paper as security have printed new bank notes and send them to the country bank. This gives an elastic bank-note currency because the demand for more money itself brings into existence the commercial paper that is to be the security for the new notes. A farmer, for example, wants money with which to pay his laborers. So he gives his banker a promissory note, which is secured by the crops soon to be marketed. His banker rediscounts the promissory note and turns the necessary bank notes over to the farmer. But when the need is passed this currency is contracted. The farmer sells his crops and pays his promissory note at the bank. The bank now pays these notes over to the Federal Reserve Bank in Chicago to meet the obligation which had resulted from the rediscount. Bank notes equal in quantity to the amount issued have now come back to the place of issue. The payment of the obligation which brought them forth has automatically retired them.

By these means panics can be substantially checked if not prevented altogether. In the face of a heavy pressure of loans at a time of crisis, any bank can avail itself of the process of rediscounting. This enlarges the loaning power of the banks, makes it possible for legitimate business concerns to secure bank accommodations when needed, and thereby prevents failures. A business which is

unsound or mismanaged is not entitled to and cannot obtain loans from a bank. It deserves to fail, and its early failure will be distinctly beneficial. But the business concern which is fundamentally sound and well managed ought to be able to secure banking accommodations. The new currency law permits this; and at the same time the ability of the banks to provide more currency and to expand loans enables banks to meet all obligations, forestall runs, and escape failures.

## 128. Control during a Depression<sup>20</sup>

BY WALTER W. STEWART

Can men learn to control the institutions under which they live or must men continue to be controlled by them? Since these institutions are rules of our own making they are subject to amendment. In order to carry out a revision we need fuller statistical information, a clearer comprehension of the influence of institutions upon our economic behavior, and a courageously constructive attitude toward the problem. Specifically, I wish to consider the consequences for investors and for workers of the business policy pursued during depressions, and to suggest a method by which further control might be secured.

The primary consideration of the corporate management during a period of depression, when earnings are declining, is to protect the solvency and credit of the corporation. In pursuit of this policy, provision is commonly made toward stabilizing the incomes of investors in corporate securities. A default in interest payments leads to such serious financial consequences that the management bends every effort to maintain the income of bondholders even though these payments cannot be met out of current earnings. Likewise, the harm done to the future credit position of the corporation by passing or reducing its dividends puts pressure upon the management to maintain also the dividend payments; the surplus earnings of the prosperous years are, therefore, made available to the owners of stock during years of depression. Thus during the present year of depression the profits of corporations have declined abruptly, yet the monthly distributions of interest and dividends have continued as in prosperous years.

In contrast, during the year 1921 the wage incomes of approximately 4,000,000 industrial workers completely disappeared. This, too, is part of the accepted policy for dealing with a depression when the financial position of the corporation is at stake. Confronted with unprofitable markets the management decreases the pay-roll by the

<sup>20</sup>Adapted from "Controlling Business Cycles," discussion in the *American Economic Review*, Vol. XII, No. 1, Supplement, pp. 40-43. Copyright, 1922.

discharge of workmen. When production ceases to be profitable a decrease of even 25 per cent in wage rates appears ordinarily not to be a sufficient protection to the corporate property; what is usually required is a complete cessation of wage payments by the discharge of workmen. The only way, apparently, by which large economies can be made when prices are declining is at the expense of labor. The maintenance of the pay-roll is a problem of greater magnitude than the maintenance of interest payments—a problem which corporations have not solved, and which, acting individually and competitively, they probably cannot solve. The pay-roll cannot be maintained without a maintenance of production. Production and solvency cannot both be maintained at a time when there is no market for the product. Under these conditions a decrease in the pay-roll by the discharge of workers is as essential to corporate solvency as the maintenance of interest payments.

Unemployment among industrial workers is the corollary of the decreased production of manufactured goods. The sequence by which this reduction of output proceeds cumulatively from one industry to another and back again to the place of beginning is familiar enough. Each successive corporation, in the effort to save itself, increases the difficulties for all; its discharge of workers cuts off the buying power from which orders ultimately arise. Such a policy, though perhaps expedient or necessary when corporations act individually and competitively, is ruinous collectively.

Unemployment is not the outcome of deliberate intention; rather it is the unintended consequence of a policy with other aims. But the consequences are none the less severe because they are unintended. In like manner, the provisions for stabilizing the incomes of investors are not thought of by the management as methods of dealing with the business cycle; they are the by-products of a policy intended to avoid bankruptcy and protect credit. In the control of business cycles, however, we are less concerned with the intentions of the corporate management than with the consequences of a business policy upon economic behavior and welfare. The point is that a policy based upon financial considerations which bring a degree of security to the investors brings insecurity to the workers.

Investors are doubtless more willing to bear patiently with the irregularities of production and employment than they would be if their incomes and investments suffered in proportion to the irregularity of corporate earnings. Farmers and city workers, however, who have borne the brunt of the depression, appear to be less patient. Their incomes have suffered most heavily, and they are in a mood to revise the accepted rules for dealing with a depression. If construc-

tive changes could now be proposed, their interest might be enlisted and a greater stabilization of industry secured.

There have been suggestions for the stabilization of price and production through the control of credit by the Federal Reserve Board. Perhaps economists turn toward banking as a means of control because the Reserve Board seems to be the only organization acting in the public interest which has the authority and power to make its decisions effective. I agree that in its rediscount policy the Federal Reserve Board should keep in mind the price level and the production level as well as the reserve ratio and prevailing conditions of credit. A change in the rediscount rate, however, is a feeble instrument for making effective a judgment and a will which may differ from the will of the banking and business community.

Entirely apart from the effectiveness of the rediscount policy, however, the character of the organization of the Federal Reserve System has shown the possibilities of a certain type of economic organization. The experience in the recent crisis proved the wisdom of transferring certain functions which formerly were under competitive management to a board whose decisions and actions are free from the pressure of business competition. It will be remembered that so long as the responsibility for the ultimate banking reserves remained with the bankers' banks in New York the policy pursued in a crisis did not permit the making of loans to solvent borrowers, nor did it prevent a suspension of cash payments. Each banker, in the effort to save himself, created a situation from which none could escape, and the crisis became a panic. Finally, the Federal Reserve Act made a distinction between the management of a banking system and the management of a bank, and took the final responsibility for reserves out of the hands of the individual bankers. Banking panics had arisen out of the competitive management of banking reserves; they disappeared when those reserves were centralized and brought under a unified control.

The uncontrolled and competitive management of production and the free and competitive determination of price now lead to consequences quite as disastrous. Buying power depends upon both price and output, and a collapse of either—at the farm or in the factory—causes a breakdown in the exchange of goods. A proper organization of that vast system of markets and prices which stands between and connects the farm and the factory causes the products from these two sources mutually and continuously to support one another. It is possible that by a redistribution of functions in the fields of production and price, control could be established. In all save certain specific matters discretion could be left with the individual business enter-

prise, but in other matters the decisions might be made by an agency organized on a non-competitive basis and acting in the interests of the general welfare. The need for protecting competitors from themselves is as great in the field of production as it was in the field of banking. A plan which attempts that might run counter to the accepted principles of competitive management, but so did the plan for the reorganization of banking. The problem of controlling the business cycle is a large undertaking, and we need not delude ourselves that it can be achieved by slight modifications in the existing scheme of control.

Whether the men of this generation learn to control the institutions of the money economy depends, in large part, upon the attitude toward the problem taken by the economists. If economists continue to believe that corrections will automatically be applied by the free and unregulated operation of market forces, then the cyclical fluctuations of business may continue much as they have in the past. Those price oscillations which prevent production and disturb industry will continue, along with other price changes which are useful in the guidance of production, until the economists undertake to distinguish between the two. If the price system need not yield periodically to the action of the planet Venus, then surely it might be expected to show some resistance to the action of "natural law." Natural law in the industrial world is a statement of the consequences which flow from rules of our own making. A modification of these consequences as they appear in business cycles can be secured only by a revision of the rules. Any such revision inevitably carries with it some risks, but farmers and workers, I imagine, might be willing to share in these new risks as a means of avoiding or sharing with others the risks which they now bear alone. Economists, by participating in the revision, might help to make the new rules practicable and adequate.

#### 129. Stabilization of Prices<sup>21</sup>

BY E. M. H. LLOYD

In the case of petroleum and its products, price changes are recognized to be an extraordinarily wasteful and unsatisfactory regulator of supply and demand. Partly for this reason there is a natural tendency in the oil industry toward monopoly and large-scale organization, and this tendency is steadily growing, owing to the disastrous results of violent price fluctuations.

When consumption falls off and prices show a tendency to decline,

<sup>21</sup>Adapted from *Stabilization: An Economic Policy for Producers and Consumers*, pp. 87-92, 97, 98. Copyright by Alfred A. Knoff, Inc., 1923.



oil production cannot be quickly reduced. Under competitive conditions this aggravates the slump. Tanks and pipe-lines become congested, and oil may be actually wasted, owing to the impossibility of finding a market. On the other hand, when consumption increases and prices start going up, oil production cannot be quickly speeded up. Several months are required before new wells can be bored and new pipe-lines laid down. It therefore happens that prices rise to extravagant heights before the world's production can overtake the increased demands. But meanwhile, the actual consumptive demand has been artificially exaggerated by speculation, with the result that production is again disorganized by a fresh period of depression and overproduction.

An interesting development of a similar kind is to be noticed in the case of rubber. British and Dutch rubber-producers have been demanding intergovernmental action to control the price and regulate the production and marketing of plantation rubber. The volume of rubber production is even less sensitive to price changes than oil production. It takes five or six years before a new rubber plantation begins to bear. Consequently, changes in price owing to an increase or decrease in demand have very little immediate effect upon the supply. The result has been that rubber production, having been excessively stimulated ten years ago, is now in excess of the world's demand at a price that will cover the cost of production of a large number of plantations. Under competitive conditions there is no means of securing the necessary restriction of output, since most companies will continue for a long time producing at a loss, in the hope of better times coming, rather than be driven out by their competitors. Amalgamation and voluntary agreement having proved impracticable, the producers now demand government intervention to save the majority from ruin by enforcing restriction and stabilizing the price of raw rubber.

The precise machinery by which it is proposed to attain this object is still under discussion at the time of writing. Experience of war-time control suggests that attempts to control prices must be thorough, and that half-measures are likely to fail. On the analogy of wartime schemes the simplest course would be for the British government to make a long-term contract with the rubber-producing companies to take the whole or the greater part of their output at a fixed price. But in peace time there would be certain disadvantages in intrusting commercial operations of such magnitude to an administrative department of the government. An alternative plan, which has much to commend it, would be to form a mixed company in which the government would hold the majority of shares and would appoint the ma-

jority of directors, the rest of the capital being subscribed by existing rubber companies in the form of actual stocks of rubber. Any funds required over and above the subscribed capital would be obtained by long-term bonds from the investing public. Such a company would obtain possession of the existing surplus of rubber on favorable terms, and would thus hold sufficient reserves to dominate the market and check any tendency to speculation, when demand showed signs of recovering.

If, taking a long view, it appeared that the world's rate of production was likely to be permanently in excess of the world's demand, steps would be taken to restrict output, either by a proportional reduction enforced on all producers, or by buying up and closing down the least economical firms. There is nothing visionary or Utopian about such a proposal. It is a perfectly sound business proposition based upon up-to-date principles of commercial organization; and from the monetary point of view, with which we are here mainly concerned, it would make a useful contribution to the general stabilization of prices.

It is easy to see how similar schemes, differing according to the circumstances of each trade, could be applied to most of the other raw materials and foodstuffs mentioned above. Without going into unnecessary details, a word or two may be said about some of the most important of these commodities.

The case of coal is of fundamental importance to the whole economic system and of vital concern to the workers. A tremendous amount of the social unrest and unemployment of the last four years has been due to fluctuations in the market price of coal. The severe slump which followed the boom of 1920 has taught both the miners and the owners that there is something much more fundamental even than the private ownership of the mines; and that is the chaotic conditions prevailing in the marketing of coal and the impossibility of organizing production on a regular and scientific basis without attending to the commercial and financial causes of instability.

Price changes, as a means of adjusting supply and demand, are as wasteful and unsatisfactory in the coal industry as in oil production. The supply cannot adjust itself quickly enough to changes in demand to prevent prices from going up unduly during a boom and falling excessively during the succeeding slump. Moreover, exaggerated fluctuations in the value of coal have a disastrous influence upon the rest of trade and industry, since coal plays such an important part in the cost of production of iron and steel and other basic materials. Greater stability in coal prices would contribute enormously to the regularization of production in other industries and the mitigation of profiteering and unemployment. If it is important

to stabilize the value of gold owing to its influence on the general level of prices, it is scarcely less important to try to stabilize the value of coal for the same reason.

Whatever be the future organization of the coal industry, whether it be nationalization or unification by districts, one of the main objects to be achieved will be stabilization of wages at a reasonable level and the provision of full maintenance for the unemployed. Without stabilization of prices, wages can never be satisfactorily adjusted. They will always lag behind when prices are rising, and will all too easily be forced down below a reasonable level during a slump. The level of prices is thus fundamental. The commercial and financial conditions which dominate the coal market are of more importance to the miners even than the ownership and management of the mines.

### 130. Controlling Business Cycles<sup>22</sup>

BY WESLEY C. MITCHELL

We have learned how to prevent crises from degenerating into panics, and from that success we may derive substantial encouragement to attack the next problems: how to lessen the excesses of booms and the sufferings of depressions.

In dealing with these problems we have seldom made the proper approach. After the usual human fashion we have tried to counteract the effects from which we suffer rather than to control the causes from which they flow. In every period of severe depression we have hurriedly devised emergency measures to prevent people from starving. Of course that is an effort in which every sensible man is glad to join once the emergency grows urgent. But obviously it would be far better to prevent these emergencies from arising—if that is possible. Our chief failing has been that we have not devoted sufficient constructive intelligence to finding out whether prevention is possible.

In most discussions of preventive measures it is notable that emphasis is laid upon the prosperous phase of the cycle as the phase which requires control. It is becoming a common opinion that the time for effective action is the time when industrial activity is approaching the elastic limit set by full use of existing plant and when further expansion will be primarily a speculative boom. It has been argued, against strong objections, that the excess of booms can be tempered by advancing discount rates at an earlier stage than has been customary in the past.

<sup>22</sup>Adapted from "The Crisis of 1920 and the Problem of Controlling Business Cycles," *American Economic Review*, Vol. XII, No. 1, Supplement, pp. 22-32. Copyright, 1922.

The most promising among these other plans are so familiar that I need hardly more than name them. First comes the long-range planning of public works, with intent to get a larger part of such undertakings executed in periods of depression. For this plan it is urged that the saving in the cost of public works if contracts were let in periods of depression would be ample compensation for any inconvenience caused by postponing their completion for a year or two; that the reduction of competition for men and materials during periods of prosperity would lessen the strain of overactivity, and the increase of public contracts in times of depression would diminish the losses of both labor and capital. Like most other reforms this plan cannot be put into effect without an intelligent appreciation of what is now amiss on the part of large numbers of men. It, too, requires a campaign of public education. And no one can tell in advance just what practical importance it may assume. But clearly the average annual volume of construction work now undertaken by various public bodies runs high in the hundreds of millions, and a considerable fraction of this imposing total can be allocated on the basis of the business cycle without detriment to social welfare. Further, it is quite possible that in addition to construction work public purchases of many standard supplies might advantageously be planned on this basis.

The extension of such long-range planning from public to private enterprises is an obvious suggestion. It is argued that American railways could profit by planning their expenditures, as they have long been planning their financing, with reference to the business cycle. In practice, most American railways still do precisely the opposite; they build and buy most freely in times of business activity when costs are high. For this policy there is at present a compelling reason. Few railway systems have the financial leeway necessary to allocate their outlays in the most advantageous fashion. They are forced to live from hand to mouth however extravagant that mode of life may be. But if it is socially desirable to leave the railways in private hands, it is desirable to secure them revenues sufficient to maintain efficient service and with such revenues they would in all probability find it profitable at least to level down the present inequalities of outlay as between good times and bad, if not actually to undertake more work in periods of depression than in periods of activity. And what is true of the railways in this respect is probably true, also, of most other industries. The total volume of purchases and construction work which might with advantage to all concerned be systematically planned with reference to the business cycle runs in the billions.

Quite a different line of attack upon the problem is represented by

the various schemes of unemployment insurance now in operation or under consideration by government agencies and private employers. Perhaps the most interesting of these plans is the Huber bill at present pending in the Wisconsin legislature. This bill creates an Unemployment Insurance Company, which all manufacturers in the state would have to join, and to which they would pay premiums varying according to their labor-turnover rates. These premiums would be used to provide unemployment allowances for employees discharged for no fault of their own. The central idea, however, is less to mitigate the misery of the man out of work than to prevent men from being discharged for lack of work. For by making his premium depend upon his labor turnover this bill gives the employer an inducement to stabilize his working force. Just as compulsory accident insurance has led to a large reduction in the number of accidents, so it is believed that compulsory unemployment insurance would lead to a large reduction in the number of the unemployed.

Concerning other plans for stabilizing economic activity—the improvement of employment offices, out-of-work benefits by labor unions, a greater centralization of banking, stabilizing the dollar, and the like—I shall say nothing, not because of lack of interest but because of lack of time.

Most important of all is the need of increasing our knowledge of the business cycle and putting this knowledge to better use. To do what in us lies toward the improvement of statistical data is by no means the whole of our opportunity. After all, the endless tables of statistics which we need are only raw materials from which we are to construct a more serviceable account of economic behavior—an account that will serve better all efforts to raise the standards of social welfare. Among these efforts the effort to control the business cycle is but one, though one that is in a most hopeful stage at present. Here is a really progressive line of economic research. The books in this field rapidly go out of date, because the later writers have new things to say; they really have more knowledge, keener insight, better technique than their predecessors. And yet we are far from being within sight of the solution of our problem.

You remember Carlyle's description of the situation of England in 1843 when he spent the first seven weeks of the year in writing *Past and Present*. He wrote:

England is full of wealth, of multifarious produce, supply for human want in every kind; yet England is dying of inanition. With unabated bounty the land of England blooms and grows; waving with yellow harvests; thick-studded with workshops, industrial implements, with fifteen millions of workers, understood to be the strongest, the cunningest, and the willingest our Earth ever had; these men are here, the work they have done, the fruit they have realized is

here, abundant, exuberant, on every hand of us: and behold, some baleful fiat as of Enchantment has gone forth, saying, "Touch it not, ye workers, ye master-workers, ye master-idlers; none of you can touch it, no man of you shall be the better for it; this is enchanted fruit."

It is true that Carlyle made the grave mistake of supposing that this condition of affairs was a chronic instead of an intermittent disease of the body politic; but for all that his description applies as well to the United States in 1921 as to England in 1843. And this description points straight to the heart of the difficulty which we must face in our efforts to control the business cycle.

This past year millions of us have been idle when we wished to work, billions of dollars' worth of plant and machinery have stood unused when the owners longed to start their furnaces, and what we wanted to produce we needed to consume. The edict of enchantment which forbade us to do what we wished was pronounced by the money economy. We are periodically mastered by this social machinery we have made, and stand idle and needy at its bidding. For with all its efficiency the money economy has a fundamental defect—it warps the aim of our economic activity. What we want as human beings is to make serviceable goods. What we are compelled to do as citizens of the money economy is to make money. And when for any reason it is not profitable to make goods we are forced to sacrifice our will as human beings to our will as money-makers. That is the heart of the paradox.

If I am right about this fundamental matter, I can hardly be wrong in taking an optimistic view of the future. For since the money economy is a complex of human institutions, it is subject to amendment. What we have to do is to find out just how the rules of our own making thwart our wishes and to change them in detail or change them drastically as the case may require. Not that this task is easy. On the contrary, the work of analysis is difficult intellectually and the work of devising remedies and putting them into effect is harder still. But one has slender confidence in the vitality of the race and in the power of scientific method if he thinks a task of this technical sort is beyond man's power.

To do our large share in this work we must develop our contribution to the theory of human behavior along three lines. First, we must make an increasingly thorough use of quantitative analysis, co-operating vigorously in the efforts at securing better statistical data, on the one side, and, on the other side, utilizing such data as we have to the best advantage. Secondly, we must be clear in our own minds about the rôle which institutions play in guiding our behavior. Among these institutions none is more important than the money economy.

No one cares deeply for "price economics" on its own account. All of us agree that our ultimate aim is social welfare. But we cannot promote social welfare effectively without finding where our dominating pecuniary institutions serve us well and where they serve us ill. So we have the best of reasons from the viewpoint of "welfare economics" itself for devoting much of our attention to the technical exigencies of the price-system. Finally, I think we must adopt a courageously constructive attitude toward our problem.

John Dewey, in 1917, said:

Social science seems to me to stand about where physical science stood three centuries ago in the early years of the seventeenth century. There is the same halting and obstructed tendency to move from the attitude of the outside spectator, classifier, and justifier of things as they are outwardly given to that of the active participant and modifier, from that of wholesale organization to that of retail reorganization.

Let us join whole-heartedly in that movement, cultivating an experimental habit of mind, and endeavoring to add our mites to the knowledge that may some day give mankind control over their own behavior.

### 131. The Severity of the Trade Cycle in America<sup>23</sup>

BY W. A. PATON

The peculiar characteristics of modern industrialism which make it susceptible to serious disturbance are too well known to require detailed description. They include the detached and impersonal relations between producer and consumer, and producer and investor; the interdependent nature of co-operative production; the extreme length of the productive process; the unstable character of demand in dynamic society, and frequent and radical changes in technique. These characteristics are universal throughout the Western World; yet American industry has been particularly subject to industrial disturbance.

The inadequacy of our banking system and credit facilities has often been urged as the explanation. Since we use credit to a far greater extent than European countries, we have particular need for stability in banking and credit. It is hoped that the new Federal Reserve System, by giving in a higher degree than before these characteristics, will do much to modify the severity of the ebb and flow of the trade cycle. But it needs to be emphasized that banking reform can never be more than a palliative. Lax banking and unsound currency systems do something to breed speculative fever.

<sup>23</sup> 1915.

But the fundamental conditions leading to the severity of these disturbances lie deeper.

First among these is the supreme optimism which has always characterized American industrial development. Here was a vast new continent, with an abundance of land, minerals, natural power, and other resources untouched. People from all countries were drawn into the task of developing these resources. To them America was the long-sought-for "promised land." There were no rigid class walls; there existed every opportunity for "self-development." A loose social system and the reaction of the physical environment made it inevitable that the bourgeoisie attitude should prevail. The immigrant who, as a peasant in Europe, has no thought of changing his status; the native frontiersman, Yankee son of the old New Englander; the prospector looking for diggings—in each you had the would-be capitalist. There was also the man with capital looking for sudden wealth in the shape of land concession, franchise rights, or public contracts. The situation, the large class of speculative investors, great and small, and the political organization, making a fetish of the principle of let-alone, could not but induce a highly speculative, over-optimistic attitude toward industry.

A partial justification of American optimism made it the more speculative. The scarcity of labor incident to the opening of a new country, the demand for improved transportation facilities to permit the utilization of new lands and new resources, and the rapid and comprehensive extension of the machine technique into line after line of production, did much to convince the American that anything is possible.

The changes in industrial technique have been more rapid and more extensive than in any other country. The greater and increasing dependence upon machinery has led to increasing complexity in the productive process, as well as to its greater length. The disturbance in the labor market, such as temporary unemployment, which has been chronically incident to its introduction, is but a single example of the strain and shock to which the system as a whole has been subjected.

But minor causes have also been at work. The influx of laborers from abroad has continually altered the proportions between the productive factors. In this country, filled with people who have broken away from their old surroundings, custom and tradition have had comparatively little force; among us it has been hard for conventions, even those adapted to the new situation, to be built up; and the situation as a whole has been particularly sensitive and variable, especially in demand.



This brief statement suggests the essential aspects of the American industrial structure which has given it its peculiar dynamic character, and has made it more highly sensitive to irregularity than that of any other country. A word should be added to indicate how these conditions may intensify the severity of the trade cycle. The great speculative optimism of the American people, together with the need of improved technological equipment, leads to a greatly increased demand for capital goods—producer's goods. This means that a great deal of labor power and a large volume of capital are devoted to producing these kinds of goods. In other words, in America there is an unusual heaping up of society's productive resources in the initial stages of the long-time process. This process continues for some time, the boom period. The length of time necessary to permit these investments to yield returns is generally underestimated, as was the case particularly with many of the early American railway projects; and in other cases the ventures are ill advised and could never become profitable. In such a situation many entrepreneurs find themselves embarrassed when their obligations fall due, and a great many failures ensue. Building and development work halts abruptly; prices of raw materials fall very sharply; all prices go down in sympathy, and a more or less severe period of readjustment follows.

In view of the conditions above described, it is difficult to see how this country could have had its very rapid development without these accompanying periods of stress. As the country becomes older, as technique becomes more dependable, as social conventions standardize demand, as efficient government checks the wildest displays of speculative fever, as speculative capital has to look for golden opportunities abroad, and as we have to look more toward internal organization and economy, rather than to external accident, for industrial gain, the ebb and flow of trade depressions will be less and less severe. We are perhaps nearer than we know to the orderly period wherein their rhythm is as circumscribed as in prosaic Europe.

## VI

### THE PROBLEM OF INTERNATIONAL TRADE

Problems come and go, but the tariff seems to be a permanent American institution. In a country where "every man is his own political economist" it possesses a perennial freshness. It has, time and again, been proved guilty at the polls of raising and lowering the standard of living, of increasing and decreasing wages, of creating and destroying monopoly, of abetting and discouraging immigration, of producing crises and causing prosperity. In part this has been due to an easy association of the question with sentiments of nationalism; the absence of grave social problems, such as are found in more mature societies; and the popular idea that it is a simple and manageable piece of mechanism. But, in part at least, its popular hold has been legitimate. It has been intimately associated with the development of the country, and it has served as an instrument for controlling our development.

However particular tariff questions may be stated, the real issue lies in the antithesis between protection and free trade, which are the ends of the tendencies underlying particular programs.

The theory of free trade is "a mere corollary to the principle of the division of labor." Foreign, like domestic, trade, "allows increased specialization," and consequently "increases the aggregate of wealth." A study of the mechanism of exchange shows that "goods are paid for with goods." "Foreign trade fixes its own limits." The tariff, if used, should have as its object the raising of revenue; it should leave "industrial conditions as it finds them." The argument implies a conception of industrial society in static terms, is an aspect of the general theory of *laissez-faire*, and rests upon a belief in the efficacy of price as an organizing force.

The strength of protection lies in a mercantilist spirit as old as society. Tradesmen have always been willing to use agencies of social control to increase their sales. This disposition is revealed in the inhibitions against buying goods out of town, supported by custom or opinion; in the attempts of legislatures to exempt manufacturing establishments from taxation; and in duties placed upon imported goods.

Nevertheless, there is a social theory of protection. It rests upon the concept of a developing society, the necessity of social direction of that development, and the possibility of determining, partially at least, its course by assessing, raising, lowering, and removing duties upon imported goods. It implies a constant adaptation of the "tariff policy" to the changing condition of the country. This theory reveals itself in the arguments that protection can transform an agricultural into an industrial society, develop a nation strong in arms, add industry after industry to the national wealth, and "scatter plenty o'er a smiling land" by piling up huge aggregates of capital.

All of these things, it is asserted, it has accomplished for American society. Unfortunately we have no trustworthy evidence of the rôle it has played in the transformation of our system. The histories of the tariff are largely records of what has happened to it rather than of what it has done. The argument "from experience" has failed to disentangle the influence of the tariff from the vast complex of "forces" which together have made our system what it is. Yet it is quite evident that the tariff has played its part in the creation of our highly pecuniary, industrial, and urban culture. The development of manufacturing and mining, upon which the structure so largely rests, would have come without protection; for our abundant natural resources could not be ignored; but a highly accelerated movement necessitated high prices, increasingly large quantities of cheap labor, and larger and larger aggregates

of capital. Protection promised high prices; the open door to immigration offered cheap labor; either would have sufficed. But to make assurance doubly sure we chose both. Protection, with other agents, has transformed resources into stupendous incomes, out of which large aggregates of capital have been saved and reinvested. Thus it has been an active factor in our "prosperity." It need not be said that, in view of changed conditions, its potency in the past is no guaranty that in future it can play an identical rôle.

But our social scheme has proved too complex for it to accomplish just the industrial effects it was intended to accomplish and no more. With complementary factors, it has induced a gigantic, clumsy, feverish development of manufacturing and mining; it has caused a headlong "lunge" in a particular direction. But it has induced the inevitable attendants of this growth—urban life, city comforts, luxury, slums, poverty, and vice; greater concentration of wealth and more pronounced class differences; a medley of races and a babel of tongues; a clash of political and ethical systems; a vast array of bewildering problems. It has been responsible for development in ethics, politics, and social life, though it has been impotent to direct this development. It has made the attention to these aspects of social life more imperative than ever, though the "prosperity" which it has induced has served to delay our attention to the question of whether the older institutional system is adequate for the newer industrial life. In short, it has induced growth, faster than we have been able or willing to perfect means for controlling that growth. Its results, too, have been accompanied by prodigious waste. That its "good" is so conspicuous is due largely to our enjoyment of gains from the exploitation—the *over-utilization*—of our natural resources and our passing of the costs to succeeding generations.

Aside from the theoretical difficulties, the method of its use prevents protection from being an adequate means of social control. Since a legislative body is depended upon for tariff laws, we may well say, "Protection is all right in theory, but it will not work in practice." Did you ever hear of Congress, when considering a tariff bill, giving attention to the "end" to be reached, noting carefully the larger social as well as the purely industrial results of anticipated duties, carefully calculating gains against costs, and on this basis fixing duties for periods just long enough to secure the desired results? Or have you rather noted that, without attention to general principles and the relation of particular duties to these, a tariff bill is evolved through an aggregation of compromises between particular interests?

But the tariff is still our heritage. At present there is some disposition to treat it as a "moral issue" intimately connected with the fact of class and the distribution of income. There is a demand, perhaps waning but still strong, for a "scientific revision." This finds its source, partly in a protest against the way in which Congress draws a tariff bill, and partly in a superstitious reverence for whatever wears the label "scientific." Its weakness is that it fails to see that science can furnish only a mechanism, and that the nature of the tariff depends largely upon the theory underlying legislation. There is a cry for "freer trade" from many men with many minds. Now that the war is over the practical manufacturer who sees in foreign markets the salvation of domestic production, the patriotic American who contemplating our large and newly acquired merchant marine, beholds our industrial future "beyond the seas," and the cosmic idealist who visualizes in the coming league of nations "a world lapt in universal law," unite in a cry for an unhampered trade. Yet, with it all, there still lingers, less vocal than of old, but still loud enough to be heard in legislative halls, the perennial cry for higher duties and more of them.

But, most important of all, there is reason for believing that the limitations of the tariff for good or bad are being more clearly seen, and that in the future it will be supplemented by other and more delicate instruments of control which together can impart to social life a more symmetrical development.

## A. THE BASIS OF INTERNATIONAL TRADE

### 132. International Co-operation<sup>1</sup>

BY CHARLES GIDE

It is strange that the advantages of international trade have been considered from two precisely opposite points of view. The classical economists consider only imports. They regard importation as the object of international trade. Exportation is but a means—the only means—by which a nation can procure the goods it imports. Exports, in other words, are the price paid for imports. The less we give in exchange for what we want—so reason the classical economists—the more profitable is the transaction.

According to the protectionists and current public opinion the advantages of international trade must be considered from the viewpoint of exports. Exports, it is held, constitute the real profits of international trade. Imports are thus regarded only as a necessary evil to which a nation must submit whenever it cannot produce all that it needs; but a nation should strive to reduce its imports to the lowest possible amount. Exportation means increased wealth, the receipt of money in payment for goods sold abroad. Importation, on the other hand, means expense, the payment of money to foreign nations.

Both of these opposite points of view are false. Both are based upon the mistaken assumption that a nation may be regarded in the same light as an individual. A great country cannot be likened to a person carrying on trade solely as a means of procuring what he needs. A nation does not export goods merely to import them, but because exportation furnishes advantages that are peculiar to itself.

Inversely, the second point of view, which likens a great nation to a storekeeper who buys only to sell again, and whose profit consists of the excess of the selling-price over the purchase price, is no less erroneous. What a singular idea it is to measure the benefits of exchange and commerce among nations just as one would measure the profits of merchants. If merchants and traders made no profit at all, exchange would be none the less beneficial; nay, it would even be more beneficial.

The advantages of international trade are not susceptible of arithmetical calculation. They are too complex for such simple

<sup>1</sup>Adapted from *Principles of Political Economy* (2d American ed.), pp. 301-7. Translated by C. William A. Veditz. Copyright by D. C. Heath & Co., 1903.

methods, and are found on both the side of imports and that of exports.

The following are the advantages of importation:

I. Additional well-being is imparted by the imported goods which a country, because of its resources or climate, could not have produced within its own borders. For example, without international commerce, Holland could have no building stone, Switzerland no coal, England little lumber and no wine, France no copper and the United States no tea or coffee.

II. Economy of labor is realized when wealth is imported that could be produced at home only at a higher cost than abroad. France could make good machinery, but it is more profitable to import it from the United States, which is better provided with coal, iron and facilities for manufacturing. To realize this advantage it is not necessary that the importing nation be inferior in the production of the good it receives from abroad. It may be to its advantage to import goods which it might produce under even more favorable conditions than the country which sends them. Cuba, for example, might be able to produce wheat more advantageously than the United States, but also to produce sugar even more advantageously. In this case it will be more profitable for Cuba to raise sugar and import wheat, despite her advantage over the United States in the production of wheat; for thus she can purchase through sugar what otherwise would have cost her more labor to produce. Thus it may happen that a country in all points superior to its neighbor will find it profitable to import goods from them.

An allied advantage is that whenever an accident of any sort unexpectedly reduces the productivity of one country, it may depend upon others to remedy this accident, which, in the absence of international commerce, might have disastrous consequences. Thus international commerce provides a kind of insurance against famines and against the severe stress of national panics and depressions.

Although a nation could perhaps produce a sufficient quantity of many commodities which at present it imports, the quantity at home could be increased only at a very great cost in labor and capital and a consequent increase in prices. The United States, for example, imports a large quantity of lead. If imports were cut off, it would be necessary to work poorer mines, and incur the necessarily greater costs, which, in higher prices, will obviously fall upon the consumers of lead.

As for exportation, the following are its advantages:

I. It utilizes natural resources and productive forces which, if there were no foreign outlet, would be superabundant, and there-

fore partially useless. Were it not for exportation, Peru would not know what to do with her nitrates, Australia with her wool, Spain with her wines, Pennsylvania with her iron and steel, nor the South with its cotton.

II. It develops a nation's industry. It is well known that the extent of the division of labor and the progress of large-scale production are proportionate to the size of the market. Division of labor cannot be at all detailed when the market is small, whereas with every extension of the market a more elaborate division of labor and the introduction of more expensive but in the long run more productive processes and machinery becomes possible. International trade, by creating world-wide markets for goods, tends to develop the division of labor; it leads to a fuller utilization of the possibilities of the soil and the population, to a completer development of acquired aptitudes, and hence to a great increase of the productive energy of humanity. England could never have become the great manufacturing nation it now is, did it not export to all parts of the world. The possession of an extensive market made it possible for her to make immediate and profitable use of the latest inventions and improvements in manufacturing.

### 133. The Law of Comparative Costs<sup>2</sup>

BY FRED M. TAYLOR

Here is a lawyer who very likely can mow his lawn, cultivate his garden, and take care of his furnace much better than the persons whom he hires to do these things. But what he does is to devote himself to his profession, and buy the services named from other people; and of course he acts wisely in so doing. It is clear that he gains most by devoting himself to the thing for which he is best fitted. He is not interested in the fitness or unfitness of his neighbor as compared with himself, but rather in the superiority of his own fitness in one line as compared with his fitness in another line. So long as he can find a market for his output, it is better for him to devote his time to doing the things for which he is pre-eminently fitted, and get his supplies of other things from his neighbors, even though he can make those other things better than they.

It is evident that in this respect the case of the community or the nation is like that of the individual. The upper peninsula of Michigan produces little but copper and iron, getting most other goods through exchange with other communities. Yet it would be easy to prove that

<sup>2</sup>Adapted from *Principles of Economics* (2d ed.), pp. 75-77. Copyright by the author. Published by the University of Michigan, 1913.

this section is really better fitted to produce some of the things which it buys than the sections from which it buys them. The explanation is to be found in what has long been known as the law of comparative costs. It may be stated as follows:

Ignoring cost of transportation, two communities find it profitable to specialize respectively in the production of two commodities and to exchange those commodities each for the other, provided the comparative real costs of the two commodities in one community are different from their comparative real costs in the other community.

Let us illustrate. Letting labor represent all real costs, suppose that in England the cost of a ton of iron is 25 days' labor and the cost of a yard of broadcloth is 5 days' labor; while in America the cost of iron is 16 days' labor and that of broadcloth 4 days' labor. These costs may be expressed in the following proportions:

Eng. cost iron : Eng. cost cloth :: 25 : 5  
 Amer. cost iron : Amer. cost cloth :: 16 : 4

Since in England a ton of iron costs five times as much as a yard of cloth, it will naturally tend to be worth the same as five yards of cloth; under which conditions England can afford to give iron for cloth if, and only if, she can get more than five yards per ton; or trade cloth for iron if, and only if, she can get it with less than five yards per ton. In America, on the other hand, a ton of iron tends to be worth four yards of cloth; under which conditions America can afford to trade iron for cloth if, and only if, she can get more than four yards per ton; or to trade cloth for iron if, and only if, she can get it with less than four yards. But the first hypothesis for England and the second for America are plainly shut out. England cannot get more than five yards of cloth for iron, since in America it is worth only four yards. So America cannot buy with less than four yards of cloth since it is worth five yards in England. On the other hand, the second hypothesis for England and the first for America fit each other perfectly. England can get iron for less than five yards, since it is worth only four in America; and America can sell iron for more than four yards of cloth, since it is worth five in England. Accordingly, under the conditions supposed, an exchange of English cloth for American iron would be profitable.

It goes without saying that if one nation is absolutely inferior to its neighbor in respect to the production of one commodity and absolutely superior in respect to the production of another, then, obviously, the comparative costs of these commodities in one country are different from their comparative costs in the other, and so exchanging them will pay.

But, as the argument above has shown, it is equally clear that if a nation is absolutely superior to another in the production of each of two commodities, it will produce the one in which its superiority is the greater, and will import the latter. Likewise, if a nation is inferior to its neighbor in each of two commodities, it will produce the one in which its inferiority is less, and import the other.

### 134. The Doctrine of Free Trade<sup>3</sup>

BY SIR WILLIAM ASHLEY

Political economy is now old enough to have reached the stage of retrospect. I shall take advantage of this circumstance, and I shall ask you to consider with me a well-rounded body of economic ideas during a well-marked period. The body of ideas shall be the general English doctrine of international free trade. And the period shall be the century approximately which followed the publication of *The Wealth of Nations*. It is well marked in economic literature. And it is well marked externally, for it came to an end before England had lost the commercial supremacy due to its early utilization of coal and iron, and before English agriculture had begun to be seriously affected by the cheap grain of the new countries.

The doctrine was imposing by its simplicity and symmetry. It consisted of a few easily intelligible propositions, following readily one upon the other, and so sweeping in their range, and so optimistic in their implications, that they dwarfed all cautious exceptions and qualifications. No great English economists, indeed—neither Adam Smith, nor Malthus, nor Ricardo, nor John Stuart Mill—was, in fact, an out-and-out free trader so far as practical application was concerned. Still less were they resolute non-interventionists over the whole range of economic life. But they based themselves on certain general principles and they drew from them general conclusions which practical politicians could easily employ to justify an absoluteness of policy from which they shrank themselves.

I shall endeavor first to set forth the doctrine in a number of brief propositions. The several theses will not be found quite so consecutively stated in any of the authoritative writings. But it will be agreed, I expect, that they fairly represent the general structure of thought on which rested the whole edifice.

These, then, are the propositions:

1. That Nature is beneficent. By "Nature" is meant, in this connection, the operation of the unpremeditated instincts, desires, pas-

<sup>3</sup>Adapted from "A Retrospect of Free-Trade Doctrine," *Economic Journal*, XXXIV, 501-4. Copyright, 1925.



sions of individual men and women. Any restriction of this operation by an authority outside the individual is "artificial," and therefore bad. Nature, so understood, is the scheme of things created by God. And since God, with infinite wisdom, has established this mechanism for the fulfilment of His purposes, Nature, is as it were, His Vicegerent, and the "laws" of its action are "providential." But theistic language may be dropped, and the theistic conception even repudiated, and then "Nature" remains as self-directed, and beneficent of itself; and the reverence with which it is regarded amounts in effect to deification.

This does not mean that every particular action dictated by a "natural" passion is, considered in itself, morally commendable; it may even be "shocking" to the moral sense. But the "natural" impulses work out on the whole for good, with only such a minimum amount of evil as is involved in the execution of the whole design. The wisdom of God is displayed in the folly of men; by an Invisible Hand they are led to promote salutary results which are no part of their intention.

2. That individual freedom or liberty is in itself a good thing. This is a corollary from, or rather, only another expression for, the preceding proposition. For by "freedom" or "liberty" is meant the right to pursue unchecked the instincts or passions implanted by Nature. It is true that this liberty must respect the like liberty of others; and reflection on what is involved in this qualification might suggest some doubt as to the validity of the proposition it qualifies. But this line of thought was left for subsequent generations.

So long as the purpose of the social union is conceived of as the enabling of the individual to follow his "natural" desires, their pursuit is regarded as a "natural right." Violations of natural liberty are therefore inherently "unjust." But the conception of inherent individual rights may be repudiated; and then interference may be condemned simply on the ground that it is impolitic from the point of view of social utility. In any case, the presumption is held to be on the side of "liberty." The term, first "natural liberty" and then "liberty" or "freedom" without the adjective, could thus be used, without formal argument, as bringing with it a whole atmosphere of commendation; while "interference" or "artificial" brought at once, and without attempt at formal proof, a whole atmosphere of disapproval.

3. That society is nothing more than an aggregate collection of individuals. Accordingly the wealth, the advantage, the profit of society as a whole is but the sum of the wealths, the advantages, the profits of the individuals composing it.

4. That every individual left to himself pursues his own interest his own way, and knows it better than anybody else. Accordingly, absence of restriction on the individual is the best means of serving the community. Social interest is identical with individual interest.

5. That every country has certain natural advantages. Left to themselves individuals will exert themselves in the directions to which these advantages point. It is, therefore, for the benefit of a country or nation that they should be left free to do so.

6. That in each country there is at any moment a certain given supply of capital and labor, which cannot be increased by any action of the state. Since, left to themselves, they will spontaneously flow into the employments most advantageous to themselves and consequently to the country, any action of a public authority which directs them toward employments to which they would not of themselves go, or keeps them in industries which they would otherwise leave, involves loss to the country.

7. That if another country can supply certain commodities more cheaply, it follows that that country must possess advantages which the importing country does not enjoy. Since these imports must be paid for by exports, they must be paid for by commodities in the production of which the importing country has an advantage. Each country thus obtains what it wants with the least expenditure of labor or capital, i.e., most cheaply, and benefits by international division of labor. Since the advantages in question are of divine appointment, to refuse to take the fullest advantage of international division of labor is to fly in the face of Providence. If the theistic conception is dropped, and the argument is based on utility, the offense is the equally serious one of disregarding common sense.

8. That the national capital and labor can be transferred from one occupation to another. If an existing industry cannot be profitably carried on owing to foreign competition, the capital and labor involved can be transferred to some other manufacture within the country, and must inevitably be so transferred in order to provide the additional commodities necessary to pay for the imports. That the foreign country will—indeed, must—take commodities in return for what it sends, proves that in some exportable commodities the home country has an advantage. The destruction of a native industry is in itself a proof that it has no economic right to exist.

9. That, left to themselves, people will buy whatever they want at the cheapest price. This, therefore, must be their interest. And since the state is a collection of consumers, and individual interest is social interest, the ultimate criterion of the interest of the state is the interest of consumers.

In these nine propositions and their corollaries consists the whole of the generally accepted economic doctrine of the century which followed upon the great work of Smith. That they were held to be sufficient and decisive at late as 1878 is very authoritatively stated in the most widely circulated of treatises on the subject—the lecture of Professor Fawcett, which appeared in that year and quickly passed through several editions. He remarks:

All the most effective arguments that can now be urged in favor of free trade had . . . been stated with the most admirable clearness and force by Adam Smith, Ricardo, and other economists. In the pages of these writers are to be found many passages which furnish the best reply that can be made to the modern opponents of free trade.

### 135. The Care for Free Trade<sup>4</sup>

The theory of free trade is nothing else than a deduction from the advantages of foreign trade, or rather, of trade. The industrial policy of a people is concerned, not with the welfare of classes or the productive profits of particular individuals, but with securing for the people as a whole from the limited social resources at their command the largest amount of material wealth. This involves a problem of economic organization. This problem can be solved in two ways, logically antithetical, as well as in innumerable intermediate ways which combine the two primary solutions.

The one is the resolution of the economic world into a large number of infinitely small districts. In each district there is a body of people, a fund of accumulated capital, and land possessed of definite productive powers. The people, capital, and products of each district are to be kept clearly within the confines of the district. Commercial intercourse and personal movement from district to district are to be prohibited. Thus each district is called upon to solve its own problem in economic organization. It must directly satisfy the wants of its own people; to that end it is compelled to make the best possible accommodation of its labor and capital to its natural resources. It need not be said that under such a system of small self-sufficient units, few wants could be satisfied; little capital could be accumulated; the advantages of specialization would be lost; little natural skill could be developed; and only limited potentialities of the natural resources could be utilized.

The alternative is the treatment of the economic world as a single industrial unit. Population and capital are to be allowed freely to move wherever they please; there is to be no barrier to the free exchange of goods. The problem of economic organization is to be

<sup>4</sup>An editorial (1915).

worked out for the economic world as a single entity. Under freedom from interference, population and capital will gravitate towards those places where they can get the largest returns, or where they can best utilize nature's contributions. Where they go, industries will be established. The goods produced will not have to be consumed in the region in which they are produced; they will likewise naturally seek the places where they can command the highest prices. Under this system the people of any territory do not seek directly to supply all their own wants. They produce surpluses of the goods in the making of which natural resources or acquired skill make them pre-eminently fit, and exchange them for similar surpluses produced by their neighbors, far or near. Such an economic organization is nothing else than a territorial division of labor. It makes industry more efficient through the better utilization of natural resources, through the development of specialized skill, and through the larger volume of capital accumulated out of the larger earnings. The expenses of trade are a tax upon this system; but the exchange which trade makes possible pays at least its own expenses. If it failed to do so, it could not be carried on. In the majority of cases it yields, in addition, a surplus to both parties.

Neither of these alternatives can be perfectly realized. The former cannot be, because it is practically impossible to find a unit of territory logically small enough. The latter cannot be, because of the expenses of transportation. The cost entailed by distance will always involve the element of a scattering over wide territories of the establishments producing many separate goods. It will permit only a few localized industries to satisfy world-wide demands. But distance is to be looked upon, not as a friend, but an enemy, to material progress. Every invention in transportation which reduces the costs of carriage is to be regarded as a means to greater social economy, and as an effective device for extending still further the market, specializing more narrowly in production, and swelling the volume of material goods. On the contrary, everything which increases costs must be looked upon as a device tending to break society up into smaller groups, decrease the area of the market, and reduce the amount of material wealth. Protection is a system of taxes the object of which is to cause industrial society to be organized in a smaller group than otherwise it would be. It is nothing else than an increase in the costs of carrying goods from place to place. Consequently its interference with the establishment of a natural economic organization prevents the fullest utilization of limited social resources and leads to the production of a smaller volume of goods than would be attained through free trade.

The theory of free trade is premised upon the proposition that a trade yields an advantage, not to one, but to both parties to the transaction. Since society is an aggregate of individuals, trade in aggregate yields a corresponding advantage. Political lines are artificially drawn. Their presence cannot affect either the nature or the advantages of trade. Therefore the way to fullest national prosperity, not for particular individuals or industries, but for society as a whole, is through the policy of untrammelled commerce.

## B. THE MECHANISM OF INTERNATIONAL TRADE

### 136. The Theory of International Exchange<sup>5</sup>

Let us try to determine how settlement is made by a country for goods bought abroad. It is evident that the trade in question is not between the countries involved, but between individuals living in these countries. To get to the heart of the matter, let us take a very simple illustration:

Suppose that Brown, a New York exporter of wheat, sells to Carpenter, a London importer of wheat, 10,000 bushels of wheat at the rate of 5 bushels for £1. Suppose, too, that at approximately the same time, Dixon, a London exporter of china, sells to Andrews, a New York china merchant, a consignment of china valued at £2,000. It is evident that as the matter stands, Andrews in the United States must remit £2,000 to Dixon in London, and that Carpenter in London must remit £2,000 to Brown in the United States. If each debtor sent the actual money to his creditor, the money would have to cross the ocean and come back again.

But, cannot some economy be devised to avoid the trouble and expense of this useless shipment? It can be done very simply. Brown, let us say, meets Andrews. He tells Andrews of his sale of grain; Andrews, in turn, tells him of his importation of china. Together they hit upon a plan of avoiding the shipment of gold to cancel the debts. Brown writes out an order on Carpenter instructing him to pay the sum due him to Andrews. This he presents to Andrews, who, in return, pays him in gold the American equivalent of £2,000. Since the amount of gold in £1 sterling is equal to \$4.8665, this amounts to 2,000 times \$4.8665. Andrews indorses the order which he has received from Brown and sends it to Dixon in payment for his china. Dixon, in turn, presents it to Carpenter, who pays him £2,000. Thus, it is evident, both Brown and Dixon have been paid in full the amounts due them, and Andrews and Carpenter have discharged their full indebtedness. Yet not a single gold coin has made the ocean voyage.

<sup>5</sup>An editorial (1915).

Although the illustration just taken is much simpler than what actually happens, it fully embodies the principles. There are three complications which keep the matter from working out so simply. The first is that the Brown and Andrews of our illustration are not likely to know each other personally. This difficulty is obviated by the establishment of exchanges. Brown takes his draft to the exchange and sells it, thus securing payment for the amount due him. Andrews goes to the exchange and buys a draft, which he sends to Dixon in discharge of his obligation. An exchange broker acts as intermediary, and the matter is as nicely handled as in the illustration above.

The second difficulty is that the drafts bought by the exchange are not always of just the denominations to accommodate those who wish to discharge foreign indebtedness. This difficulty is as easily obviated. The exchange, let us say, establishes a London branch. Drafts bought are sent to London for collection. The collections are deposited to the order of the New York house. This constitutes a fund against which new drafts can be drawn by the New York exchange broker.

The third difficulty is that at any particular time imports and exports do not balance. Consequently, there is a tendency for the demand for and supply of bills to fail of exact correspondence. But this difficulty, too, is overcome, at least partially. What is bought and sold, it must be remembered, is gold to be delivered at a particular place, London. If the demand and supply are in exact correspondence, the price of £1 in London will be practically \$4.8665. This figure is found by dividing the number of grains of pure gold in a pound sterling by the number of grains in a dollar. But they are not always in exact correspondence. Let us see how much they can vary. Now it is obvious that Brown has two alternatives. He can sell his draft, or he can have the gold due him collected in London and brought to New York. To take the latter alternative will cost him in freight and insurance charges nearly 3 cents. Since he collects \$4.8665 in London, he will receive about \$4.8385 net. Accordingly, it is to his advantage to sell his draft, rather than import the gold, if he can secure for it anything above \$4.8365. Similarly, Andrews has two alternatives. He can buy a draft, or he can send gold to London to discharge his indebtedness. Since it will cost him about 3 cents per £1 to follow the latter course, this will amount to paying \$4.8965 for every £1 due in London. Accordingly, he will prefer to buy a draft if he can secure it for a figure lower than \$4.8965. The figures \$4.8365 and \$4.8965 are therefore called "the gold points," the former being the importing point, and the latter the exporting point for gold.

When it chances that the rate of exchange tends to approach the lower point, owing to extensive selling abroad, this in itself stimulates

imports, which tend to increase the demand for exchange and hence to lower its price. And, similarly, when the rate tends to approach the higher point, exportation is stimulated, and as a result more bills are thrown on the market, thus bringing down the price. Thus, in general, the volume of imports and exports does not, for a very lengthy period, present very serious discrepancies. It may then be safely said that international trade is a very complicated system of barter.

### 137. The Favorable Balance of Trade

BY THOMAS MUNN <sup>6</sup>

Although a kingdom may be enriched by gifts received, or by purchases taken from some other Nations, yet these are things uncertain and of small consideration when they happen. The ordinary means therefore to increase our wealth and treasure is by *Foreign Trade*, wherein wee must ever observe this rule; to sell more to strangers yearly than wee consume of theirs in value. For suppose that when this Kingdom is plentifully served with the Cloth, Lead, Tinn, Iron, Fish, and other native commodities, we doe yearly export the overplus to foreign Countries to the value of twenty-two hundred thousand pounds by which means we are able beyond the Seas to buy and bring in foreign wares for our use and Consumptions to the value of twenty hundred thousand pounds: By this order duly kept in our trading, we may rest assured that the Kingdom shall be enriched yearly two hundred thousand pounds, which must be brought to us in so much Treasure; because that part of our stock which is not returned to us in wares must necessarily be brought home in treasure.

For in this case it cometh to pass in the stock of a Kingdom, as in the estate of a private man; who is supposed to have one thousand pounds yearly revenue and two thousand pounds ready money in his Chest: If such a man through excess shall spend one thousand five hundred pounds per annum, all his ready money will be gone in four years; and in like time his said money will be doubled if he take a Frugal course to spend but five hundred pounds per annum, which rule never faileth likewise in the Commonwealth.

BY CHARLES W. FAIRBANKS <sup>7</sup>

The history of our foreign trade during the sixteen years following the Cleveland administration shows that our commerce con-

<sup>6</sup>Adapted from *England's Treasure by Foreign Trade, or the Balance of Our Foreign Trade Is the Rule of Our Treasure* (1664), chap. ii.

<sup>7</sup>Adapted from an address entitled "Let Us Now Unite in the Old Faith," delivered before the Indiana Republican State Convention at Indianapolis, April 23, 1914.

tinually expanded under the protective policy. One of the fine things about it was that our exports far exceeded our imports; that is to say, we sold abroad more than we bought abroad, and as a result there was a substantial trade balance in our favor. The excess of our domestic exports over imports in the sixteen years ending March 1, 1913, was \$7,348,942,251. The magnitude of this addition to our national wealth may be more fully realized when we reflect that the total net balance to our credit upon our foreign commerce from George Washington's first term to William McKinley's first term was less than \$400,000,000.

Our free-trade friends seem to ignore the wisdom of keeping our money at home so far as we reasonably can by buying at home. Whether we send abroad a hundred millions of dollars more or less to pay for commodities produced by foreign labor is a matter of slight importance to them. We who hold to the protective system conceive it to be sound policy to patronize our home producers where possible, and keep the money in our own midst. If it goes abroad, it is, of course, withdrawn from our pockets, but if it remains at home it goes into the circulation of our own trade and our countrymen—laborers and farmers, merchants and manufacturers—have a chance to get it sooner or later.

### 138. The Mystery of the Balance of Trade\*

BY HARTLEY WITHERS

The statistics published by our Board of Trade show that for 1912, which is a typical year, our net imports, including bullion, amounted to £702,000,000, while our exports, including bullion, reached only £552,000,000. This gives a net excess of imports over exports, including gold shipped both ways, of approximately £150,000,000.

Now this huge excess of imports, which is much bigger in the case of England than in that of any other country, is often very terrifying to people who have not thought much about the subject. It is commonly called an adverse balance of trade, a phrase which has an uncomfortable sound, as if there was something chronically rotten in the state of our commerce, and it is sometimes used as a proof that other countries are continually pouring goods in to us and taking nothing from us in return, and that this is a state of things which ought immediately to be stopped in the interests of the national welfare. If this were true, it would seem, on consideration, to be rather a comfortable state of affairs. Any individual who could

\*Adapted from *Money-Changing: An Introduction to Foreign Exchange*, pp. 51-63, 78-82. Copyright by E. P. Dutton & Co. and Smith, Elder & Co., 1913.



arrange his commercial relations with his fellows on these lines would be likely to wax very fat. To be always consuming more than he produced is just the sort of life that would have been thoroughly agreeable to the economic man. With a nation, likewise, it would seem to tend to the enjoyment of plenty with little effort.

But, in fact, these things do not happen. The other countries of the world have not conspired together to kill England with kindness and give us £150,000,000 worth of goods every year for nothing. Goods are never sent anywhere unless there is a reasonable certainty that the country to which they are sent will be able to pay for them. The foreign seller of goods expects to be paid in money of his own country by selling his claim through the machinery of exchange. But if the importing country were always buying more than it sold, the supply of claims on it would be continually greater than the demand for them and the exchanges would be steadily going against it, and it would either have to export gold or export promises to pay as long as it could finance itself on Mr. Micawber's principles.

Now it is certain that we are not exporting gold. Year in and year out we import more gold than we export. It is also certain that we are not on balance exporting promises to pay, either our own or other people's. If we were doing the former, we should be raising loans abroad or exporting or selling our securities abroad, neither of which things we are doing. If we were exporting other people's promises to pay, it would mean that we were selling to foreigners out of our holdings of foreign securities. But this is not happening to any great extent. Nor do rates of exchange move steadily against us, as they must if we were really leading the profligate life of commercial dissipation that a glance at the figures might lead the unwary to infer.

It is thus clear that the big gap between our recorded exports and imports of goods is filled by unrecorded, and so usually called "invisible," exports of various kinds of services, and that there is no need to be frightened about it. England does about one-half of the carrying trade of the world. It is quite evident that these carrying services do not themselves pass through custom-houses, and hence are "invisible." And it is evident that a large part of our surplus of imports consists of payments for these services which we are performing for foreigners.

In addition to this there is an equally elusive factor in the shape of the import and export of securities and interest on capital. Almost every country in the world is a lender or a borrower. The borrower exports securities, or promises to pay, and takes in return the goods or services it requires. Later on, when interest payments fall due,

the lender has coupons to export, and the borrower has to ship goods to meet them. When Russia raises a loan in France it exports its bonds or promises to pay, and sells them to thrifty French investors. Thereafter French investors export coupons every half-year to Russia, representing claims of interest due. Thus the exportation of securities and the subsequent exportation of coupons by the lender both tend to produce the same result, a balance of visible imports.

Consequently we find that this adverse balance—or excess of visible imports—is a feature in the trade figures, both of the young and go-ahead countries that are habitual borrowers and are always exporting securities, and of the old established nations that have plenty of accumulated capital to spare and have placed blocks of it abroad, and so always have plenty of coupons to export. In both of these cases there is an invisible export, in one case of securities, in the other of coupons, which usually has to be met by visible imports of goods, which thus create a so-called adverse trade balance. The so-called favorable trade balance, under which a country shows more goods going out than coming in, is chiefly shown by those nations which have reached the stage of being in a position to pay interest on borrowed capital out of their own productions, without having to borrow more from their creditors in order to meet interest. The United States is typical of the last class, Canada and England of the first. The actual import of securities, then, should tend to produce an excess of exports, and an export of coupons to secure a surplus of imports.

But there are other invisible items that get into the total. Every American who goes forth with his Baedeker to widen his mental horizon in England brings with him a supply of notes. These have been bought for gold in New York, and consist of claims on London merchants created by the importation of American goods. Consequently his notes pay for the beefsteaks which he, an American, consumes under English skies, and for the invisible culture which he takes back to his native land. The goods which he consumes in England are properly to be regarded as English exports.

Another streamlet which sometimes swells into a respectable torrent is made by the many drops poured in by poor immigrants into new countries, who send home to their kinsmen such small sums as they can spare. In this respect Italy is believed to score heavily. The Italians seem to take with them the home-grown power of living largely on sunshine and good humor, and the sums they send home are an important cause of the power shown by Italy to maintain a so-called adverse trade balance, without the assistance of investments abroad or the profits of a big carrying trade. Ireland is another country that takes toll of the rest of the world through the filial piety of

her sons who have gone abroad to seek their fortunes in lands where thews and sinews find a better market than at home.

Another class of emigrant in another way helps the older countries by causing a drain on the country of its origin. This class is formed by the wealthy American heiresses who find English and European husbands and draw year by year large sums from the United States in the shape of dowries, so that this item in the trade balance is usually called the "dowry drain." In this case Europe and England can balance against the excess of imports the exportation of conjugal affection and social prestige.

The presence of these items, which escape customs statistics, shows that after all our exports and our imports balance each other, and that there is no real balance of trade.

### C. THE PERENNIAL ARGUMENT FOR PROTECTION

#### 139. Gold and Wealth<sup>9</sup>

BY MARTIN LUTHER

Gold has brought us Germans to that pitch that we must needs scatter our gold and silver in foreign lands, and make all the world rich and ourselves remain beggars. England should indeed have less gold, if Germany left her her cloth; and the king of Portugal also would have less if we left him his spices. Reckon thou how much money is taken out of German land without need or cause in one Frankfort fair, then wilt thou wonder how it comes that there is a penny left in Germany. Frankfort is the silver-and-gold hole through which everything which sprouts and grows among us, or is coined and stamped, runs out of German lands. If this hole were stopped, we would perchance not hear the complaint how on all hands there is naught but debts and no money, and all provinces and cities are burdened and exhausted by interest-paying.

#### 140. The Production of Prosperity<sup>10</sup>

BY DANIEL DEFOE

Trade encourages manufacture, prompts invention, employs people, increases labor, and pays wages: As the people are employed, they are paid, and by that pay are fed, clothed, kept in heart, and kept together; that is, kept at home, kept from wandering in foreign

<sup>9</sup>Adapted from the address on "Trade and Usury," *Open Court*, XI (1524), 18. Translated by W. H. Carruth. Copyright.

<sup>10</sup>Adapted from *A Plan of the English Commerce* (1730), pp. 8-10, 33-34, in *A Select Collection of Scarce and Valuable Tracts on Commerce*, edited by J. R. McCulloch.

countries to seek business, for where the employment is, the people will be.

This keeping the people together is indeed the sum of the whole matter, for as they are kept together, they multiply together; and the numbers, which by the way are the wealth and strength of the nation, increase.

As the numbers of the people increase, the consumption of provisions increases; as the consumption increases, the rate of value will rise at market; and as the rate of provisions rises, the rents of land rise: So the gentlemen are with the first to feel the benefit of trade, by the addition to their estates.

As the consumption of provisions increases, more lands are cultivated; waste grounds are inclosed, woods are grubbed up, forests and common lands are tilled, and improved; by this more farmers are brought together, more farmhouses and cottages are built, and more trades are called upon to supply the necessary demands of husbandry. In a word, as land is employed, the people increase, of course, and thus trade sets all the wheels of improvement in motion; for from the original of business to this day it appears, that the prosperity of a nation rises and falls, just as trade is supported or becomes decayed.

As trade prospers, manufactures increase; as the demand is greater or smaller, so also is the quantity made; and so the wages of the poor, the rate of provisions, and the rents and value of the lands rise or fall, as I said before. And here the very power and strength of the nation is concerned also, for as the value of the lands rises or falls, the taxes rise and fall in proportion.

Trade furnishes money, money pays taxes, and taxes raise armies; and so it may truly be said of trade, that it makes princes powerful, nations valiant, and the most effeminate people that cannot fight for themselves, if they have but money, and can hire other people to fight for them, become as formidable as any of their neighbors.

Seeing trade then is the fund of wealth and power, we cannot wonder that we see the wisest princes and states anxious and concerned for the increase of the commerce and trade of their subjects, and of the growth of the country, anxious to propagate the sale of such goods as are the manufacture of their own people; especially such as keep the money of their dominions at home, and on the contrary, for prohibiting the exportation from abroad, of such things as are the products of other countries, and of the labor of other people, as which carry money back in return.

Nor can we wonder that we see such princes and states endeavor-

ing to set up such manufactures in their own countries, which they see are successfully and profitably carried on by their neighbors, and to endeavor to procure the materials for setting up those manufactures by all just and profitable methods from other countries.

#### 141. The Ten Commandments of National Commerce<sup>11</sup>

1. Never lose sight of the interests of your compatriots or of the fatherland.

2. Do not forget that when you buy a foreign product, no matter if it is only a cent's worth, you diminish the fatherland's wealth by so much.

3. Your money should profit only German merchants and workmen.

4. Do not profane German soil, a German house, or a German workshop by using foreign machines and tools.

5. Never allow to be served at your table foreign fruits and meat, thus wronging German growers, and, moreover, compromising your health because foreign meats are not inspected by German sanitary police.

6. Write on German paper with a German pen and dry the ink with German blotters.

7. You should be clothed only with German goods and should wear only German hats.

8. German flour, German fruits, and German beer alone make German strength.

9. If you do not like the German malted coffee, drink coffee from the German colonies. If you prefer chocolates or cocoa for the children, have a care that the chocolate and cocoa are of exclusively German production.

10. Do not let foreign boasters divert you from these sage precepts. Be convinced, whatever you may hear, that the best products, which are alone worthy of a German citizen, are German products.

#### 142. The Test of Faith<sup>12</sup>

BY ROSWELL A. BENEDICT

##### *Q. What is Protection?*

A. It is a principle. It holds that home producers alone make, and therefore alone own, the home market.

<sup>11</sup>Adapted from a circular widely circulated in Germany in 1910.

<sup>12</sup>Adapted from "A Tariff Catechism," *American Economist*, III (1914), 62.

*Q. What is Free Trade?*

A. Also a principle. It holds that producers abroad should be allowed to compete for the home market.

*Q. Who are the Protectionists?*

A. Home producers standing by their title to the home market.

*Q. Who are the Free Traders?*

A. Importers and their pals stealing the home market from its lawful owners.

*Q. Wherein does the work of the Protectionists and the Free Traders differ?*

A. The Protectionists make and defend while the Free Traders attack and destroy home civilization.

*Q. How do Free Traders destroy home civilization?*

A. They destroy home production which employs the people, and so substitute violence for industry as a breadwinning craft.

*Q. After all, are not those who pass Free Trade laws merely scholars, high minded and pure, moved solely by pride in the common weal?*

A. No. It is not pride but price that moves them to sell the home market to the Market Robber. Under whatever color or cover, it is still the Market Robber's silver paid to these, our Judases, by which we are betrayed.

*Q. Who is the Market Robber?*

A. The importer who robs it of its power to employ home producers in the market made and owned by them.

*Q. What is the secret of the Market Robber's power?*

A. Market-robbing booty. His competitor, the home producer, is lucky to get 6 per cent a year from his mine, forest, farm, factory, or fishery, while the Market Robber's booty may be 100 per cent, big enough to bribe his way into any market.

*Q. Why did the Market Robber fight so hard to break into our market?*

A. To steal billions in wages from our home laborers.

### 143. The Universal Fruits of Free Trade

BY ANDREW YARRINGTON, GENT.<sup>13</sup>

I. Consider what quantities of fine Linnens are made in Holland and Flanders, and here worn and consumed, and how many hands it employs in work to manufacture it, and the great benefit the Dutch gain, being the great Masters of that Trade?

<sup>13</sup>Adapted from *England's Improvement by Sea and Land: To Out-Do the Dutch without Fighting, to Pay Debts without Moneys, to Set to Work All the Poor of England, etc.* (1677), pp. 144-46.

2. Consider, that if these fine clothes were made here, how it would employ the Poor, raise the price of Land, and keep our Moneys at home; for the Dutch take nothing from us in exchange, wherein the Benefit is in any way considerable to the Publick.

3. Consider, of course, all Linnens bought from France, as Canvases, Lockrums, and great quantities of coarse Clothes, which have of late years so crowded upon us, that it hath almost laid aside the making of Linnen Cloth in England, and thereby the people are unemployed, and the Land lyeth idle and waste.\*

4. Consider, the French take nothing of any value from us, but it is ready money for their Linnens; so we keep their people at work and send them our moneys to pay them for it, and our poor are unemploy'd: But if a tax were laid upon their coarse Linnen Clothes, then what is brought out of France into England would be made here of our own growth, to the Nation's great enriching.

5. Consider the Twine and Yarn ready wrought and brought out of the East-Country to make Sail-Cloth and Cordage, which hath taken off the labour of a multitude of people in Suffolk, and thereabouts, and hath so lessened that Trade, that it is almost lost: But if a tax were laid upon the Threds brought over ready wrought, then the Labour of all such things would be here to supply our Poor at work, and raise the price of our Lands.

6. Consider what vast quantities of narrow coarse Clothes come out of Germany, and here vented and worn; the cheapness whereof hath beaten out the Linnen Trade formerly made in Lancashire, Cheshire, and thereabouts: A tax being laid on these Easterling Clothes would occasion the reviving of that coarse Cloth-Trade again with us, and would set multitudes at work.

7. Consider, the Foreign Bed-ticking coming hither cheap, hath almost destroyed that Trade in Dorsetshire; and so the spinners are Idle and Land prices fall; and in this, as in other things, we send our Moneys into Foreign parts, to keep their Poor at work and support them; and here we starve our own, and lose that Trade: A Tax upon Foreign Bed-ticking would prevent all this.

8. Consider the vast and infinite quantities of Thred ready spun, that comes down out of Germany into England, and here made use of: It is of late discovered that the cheapness of these Threds will eat out the very Spinning in most parts of England: A Tax being put upon the Threds would put the Wheel to work in England again. This is of great consequence to the Publick, to be taken into consideration; for in this very thing of spun-yarn, no less than Thirty thousand People would be here employed, if by Law it were encouraged.

# D. MERCANTILISM TODAY

## 144. Keeping Trade at Home<sup>14</sup>

"A dollar spent in Auburn gives you another chance at it; but, if it is spent out of town, it's 'Good-bye Mary.'"

"Down with the parcels post. No more diabolical device was ever perfected by the big cities for stripping the small towns and country districts of all their surplus cash. Let the rich mail-order houses wax fat with the dollars that are the property of local merchants."

"Everything bought from the city takes just so much money out of town."

"The summer boarders are a great blessing to our little village; they put into circulation a lot of money which means at least temporary prosperity."

"If I were mayor, and had my way, I would place a fine of one hundred dollars on every man who ordered goods from a mail-order house."

"The individual can get rich only by selling more than he buys. Likewise a community can prosper only by selling to other communities more than it buys from them."

"Brethren, let me call your attention to the fact that Brother Hiram Johnson, who, this week, is opening a new grocery store on Main Street, is a member of this church. If you patronize him, you will not only contribute to the prosperity of an excellent grocer, but you will be helping a fellow Christian and Methodist."

"The European war will in a way, too often overlooked, contribute vastly to the prosperity of the Pacific Coast. Americans annually have been spending more than \$200,000,000 in foreign travel. No sane man can for a moment doubt that practically every dollar of this is lost to the home circulation. Now it will be spent in travel to the Pacific Coast. California will get the largest share of it. This money will spell prosperity for every one of the state's industries. But, we must remember the duty we owe our state. We can profit by this increase in wealth only if we keep clearly in mind the precept that it must be spent for things produced at home. Let us see to it that the dollars thus given us do not find their way out of the state."

"When I came to Marblehead they had their houses built by country workmen and their clothes made out of town, and supplied

<sup>14</sup>It seems unnecessary to give a specific reference to the source of each of the excerpts given below. The reader by a little attention to local papers can easily duplicate it. The editor is indebted to Taylor, *Principles of Economics*, for several of these excerpts.



themselves with beef and pork from Boston, which drained the town of its money."

"The annual influx of students and other outsiders into our fruit belt to engage in fruit-picking and packing is an abuse that should be stopped at once. These people consume very little, saving their money to take back to Ann Arbor, Madison, Champaign, and other places from which they come. Thus, while making large sums off us, they give little or nothing in support of our industries."

"The county commissioners should be promptly impeached and removed from office for their action of last Monday. We understand that the contract for the building of the new courthouse was let to the Knoxville firm only because their bid was \$1,800 under that of our fellow-citizen James R. Robertson. Robertson, as we are all aware, is an expert at this line of work, and was well equipped to do a handsome job. The only excuse which the commissioners give is the \$1,800. But, against this must be set down the \$32,000 which will be paid to the Knoxville gang. Think of it! Sending \$32,000 out of town to save a paltry \$1,800."

"The *Gazette* has always been outspoken in favor of education. Our stand in favor of university, college, and school cannot be questioned. We do not wish to question the wisdom of our fellow-citizens who are sending their children away to school. But we do wish to remind them of a duty which they owe it to the town not to neglect. They should see to it that their sons and daughters are supplied with clothes and all other necessary articles before they leave home for their schools. Our citizens owe nothing to the merchants of the communities in which these colleges are located. But they do owe a debt to the town which gives them homes. And they should see to it that the money spent for necessary articles is kept here as far as possible."

"'Now look here, Doc,' said the dollar to the dentist, 'if you'll only let me stay in this town, and won't send me to Roars, Sawbuck & Co.'s in Chicago for that shaving mug, I'll circulate around and do you a lot of good. You buy a big beefsteak with me, and the butcher will buy groceries, and the grocer will buy dry goods, and the dry goods merchant will pay his doctor's bill with me, and the doctor will give me to the farmer for oats with which to feed his horse, and the farmer will buy fresh beef from the butcher, and the butcher will come around to you and get his tooth mended. In the long run you see I will be more useful to you here at home than if you send me away forever.'"

"The recent cold spell, which caused a large number of water pipes to burst, has been a bonanza for business. Few things in the

last year have caused so many people to dig down into their jeans and cough up the cartwheels that spell prosperity."

#### 145. The Newest Monarchism<sup>15</sup>

BY FRANK DILNOT

Is our present system worth the money, some may ask? Considerably over half a million pounds a year goes to royalty. The entire sum is probably well expended for the sake of the excellent return we get in monarchy as an institution. But, as a matter of fact, the money is not lost. The king has to keep up his various palaces with an enormous expenditure for salaries and wages, and the money thus comes back into circulation, benefiting all though whose hands it passes in its ever widening distribution. I doubt if in these times the king, after meeting all his inevitable and automatic expenses (thus sending the money back to his people) receives a net personal salary of more than 5,000 pounds a year. It is not a large sum to give the titular head of the most successful form of democratic government which human beings have yet devised.

#### 146. The Newest Mercantilism<sup>16</sup>

Par. 3. That the respondent, The Northwest Theatres Company, hereinafter referred to as the Theater Company, is a corporation organized under the laws of the State of Montana, with its principal place of business at Missoula, in said State, and is engaged in the business of operating motion picture theaters at Missoula and at other points. That the said Theater Company and its manager is and has been a member of the Chamber of Commerce described in paragraph 1 hereof.

Par. 4. That on or about January 1, 1919, the respondents herein conspired and confederated together to hinder or prevent persons, partnerships and corporations carrying on business other than in the State of Montana, from selling upon mail orders goods, wares and merchandise to customers or prospective customers residing in Missoula, Montana, or adjacent thereto; that pursuant to said conspiracy, and to carry out the object thereof, respondents advertised in newspapers of general circulation, published in Missoula, Montana, and announced by other means, that thereafter, on the date or dates named, a catalogue published and distributed by merchants carrying on busi-

<sup>15</sup>Adapted from "King George's Salary," *The Living Age*, CCCXXIII (Nov. 22, 1924), 448.

<sup>16</sup>From *Federal Trade Commission v. The Chamber of Commerce of Missoula, Montana*, 5 Federal Trade Commission Decisions, pp. 452-54.

ness in States other than Montana, and soliciting business on mail orders at points in Montana, would be accepted at a theater operated by the Theater Company, when presented by persons under fifteen years of age with one cent to pay the federal tax, in lieu of the usual price of admission, and that certain cash prizes would be awarded to those presenting the oldest catalogues, most used, and the newest and latest catalogues, and as a result thereof there was presented at said theater, and accepted in lieu of the usual admission fee, several hundred catalogues published and distributed by persons, partnerships and corporations carrying on business in States other than the State of Montana, which catalogues had been sent by the respective publishers thereof to their customers or prospective customers residing in or adjacent to Missoula, Montana, as a means of soliciting their patronage; that respondents caused to be destroyed, by burning or other means, the catalogues obtained in the manner and by the means aforesaid; that such catalogues have been collected and destroyed by respondents pursuant to said conspiracy, at intervals of about one year, beginning in January, 1919.

#### 147. The Seen and the Unseen<sup>17</sup>

BY FREDERIC BASTIAT

Have you ever had occasion to witness the fury of the honest burgess, Jacques Bonhomme, when his scapegrace son has broken a pane of glass? If you have, you cannot fail to have observed that all the bystanders, were there thirty of them, lay their heads together to offer the unfortunate proprietor this never-failing consolation, that there is good in every misfortune, and that such accidents give a fillip to trade. Everybody must live. If no windows were broken, what would become of the glaziers? Now, this formula of condolence contains a theory which it is proper to lay hold of in this very simple case, because it is exactly the same theory which unfortunately governs the greater part of our economic institutions.

Assuming that it becomes necessary to expend six francs in repairing the damage, if you mean to say that the accident brings in six francs to the glazier, and to that extent encourages his trade, I grant it fairly and frankly, and admit that you reason justly.

The glazier arrives, does his work, pockets the money, rubs his hands, and blesses the scapegrace son. *That is what we see.*

But, if by way of deduction, you come to conclude, as is too often done, that it is a good thing to break windows—that it makes money

<sup>17</sup>Adapted from the essay *The Seen and the Unseen*, quoted in Walker, *Political Economy* (1850), pp. 321-23.

circulate—and that encouragement to trade in general is the result, I am obliged to cry, Halt! Your theory stops at what you see, and takes no account of what we don't see.

We don't see that since our burgess has been obliged to spend his six francs on one thing, he can no longer spend them on another.

We don't see that if he had not this pane to replace, he would have replaced, for example, his shoes, which are down at the heels; or have placed a new book on his shelf. In short, he would have employed his six francs in a way in which he cannot now employ them. Let us see, then, how the account stands with trade in general. The pane being broken, the glazier's trade is benefited to the extent of six francs. *That is what we see.*

If the pane had not been broken, the shoemaker's or some other trade would have been encouraged to the same extent of six francs. *This is what we don't see.* And if we take into account what we don't see, which is a negative fact, as well as what we do see, which is a positive fact, we shall discover that trade in general, or the aggregate of national industry, has no interest, one way or another, whether windows are broken or not.

Let us see again how the account stands with Jacques Bonhomme. On the last hypothesis, that of the pane being broken, he spends six francs, and gets neither more nor less than he had before, namely, the use of a pane of glass. On the other hypothesis, namely, that the accident had not happened, he would have expended six francs on shoes, and would have had the enjoyment both of the shoes and the pane of glass.

Now, as the good burgess, Jacques Bonhomme, constitutes a fraction of society at large, we are forced to conclude that society, taken in the aggregate, and after all accounts of labor and enjoyment have been squared, has lost the value of the pane of glass which has been broken.

## E. THE CASE FOR PROTECTION

### 148. Protection and Industrial Transformation<sup>18</sup>

BY FRIEDRICH LIST

The transition from the savage to the pastoral and from the pastoral to the agricultural state is very efficiently promoted by free intercourse among nations. The elevation of an agricultural people to the condition of countries at once agricultural, manufacturing, and

<sup>18</sup> Adapted from *The National System of Political Economy*, *passim*. Translated by G. A. Matile (1841).

commercial can only be accomplished under free trade when the various nations engaged at the time in manufacturing are in the same degree of civilization.

But some of them, favored by circumstances, having distanced others in manufactures, commerce, and navigation, have adopted and still persevere in a policy well adapted to give them the monopoly of manufactures, and to impede the progress of less advanced nations or those in a lower degree of culture. The measures enforced by such nations are called the "protective system."

The anterior progress of certain nations and foreign commercial legislation have compelled inferior nations to look for special means of effecting their transition from the agricultural to the manufacturing stage in industry, and as far as practicable, by a system of duties, to restrain their trade with more advanced nations aiming at a manufacturing monopoly. The system of import duties is consequently a natural consequence of the tendency of nations to seek for guaranties of their existence and prosperity, and to establish and increase their weight in the scale of national influence. Such a principle is rendered reasonable only so far as it renders easy the economical development of a nation.

Such restrictions are of the greatest importance because of the impetus which they give to the division of labor. Individuals would be in vain laborious, economical, ingenious, enterprising, intelligent, and moral, without a division of labor, and a co-operation of productive power. The principle of the division of labor has been hitherto but imperfectly understood. Industrial production depends to a great extent upon the moral and material association of individuals for a common end. This principle extends to every kind of industry.

The division of labor and the combination of productive powers take place in a nation when the intellectual power is applied so as to co-operate freely and efficiently with national production. A merely agricultural people, in free intercourse with manufacturing and trading nations, will lose a considerable part of their productive power and natural resources, which must remain idle and unemployed. It can possess neither an important navigation nor an extensive trade; its prosperity, so far as it results from external commerce, may be interrupted, disturbed, or annihilated by foreign legislation or by war.

#### 149. America's Allegiance to Protection<sup>19</sup>

BY ALBERT J. LEFFINGWELL

I intend to state a few propositions, which, as generally accepted facts, appear to me to influence very largely the national acquies-

<sup>19</sup>Adapted from an article in the *London Contemporary Review*, XXXVIII (1880), 56-68.

cence of America in the protective policy. Perhaps they may be heard with more patience from one who has never had the slightest connection with the manufacturing interest; who ought apparently to clamor for the cheapest market, but who is nevertheless, for the following reasons, a firm adherent to the protective system:

1. No country of modern times, which is without manufactures, which exports raw products for foreign made goods, and the inhabitants of which are almost wholly engaged in cultivating the soil, has succeeded in obtaining wealth, prosperity, and power as a nation. This simple fact is recognized by every civilized government in the world. Free trade at the present day is either an English or a barbarous practice. Even English colonies perceive that they must build up their home industries if they are ever to gain essential prosperity. Just so far as free trade contributes to the supremacy of British manufactures, it is a means towards the maintenance of national wealth and power. If it shall ever cease to do this, it will be abandoned.

2. If, during the past fifty years, America had permitted a system of unrestricted trade with all the world, she could never have reached the development of her manufactures which has rendered her independent; but would, today, be little more than a huge agricultural colony, exchanging the produce of her fields for the manufactures and fabrics of Europe. To be a nation of farmers, to excel in sheep-raising and in agriculture—this is the English ideal of what America ought to content herself with being. If there existed between the United States and England a perfectly free and open trade, a distribution of industry unfettered by tariffs, England would be the manufacturing member, and the United States the agricultural member of the partnership.

3. Under the system of protection America has been able to develop her boundless mineral resources, to encourage the growth of her manufacturing industries, until, today, she is not merely independent and able to supply her own wants, but she exports to foreign nations, and has begun to compete with England for the markets of the world. Conclusive evidence of this exists on all sides. The careful observer can not escape it.

4. A protective tariff has been the most important, and, indeed, the essential agent, in the development of the manufacturing industries of the United States. This proposition can hardly be seriously denied at the present time. Through the enhanced prices paid at first by consumers, manufactures have been created and fostered. Perhaps for a while they have been very costly to the nation. But of the result the country can well be proud. It has made them independent of other nations for their supplies. And, in the end, with

growth and improvements, goods have fallen in price, greatly to the benefit of the American consumer.

5. The working class in the United States, under a system of protection, enjoy a greater degree of prosperity than the working classes of England under a system of free trade. No test can be more satisfactory and practical than to compare the position of the laborer in one country with his position in another; and, however difficult it may seem at first thought to weigh in the balances privilege, opportunity, comfort, and general prosperity, certain financial facts and statistics afford us a tolerably safe method for arriving at sound conclusions. That the working man here, if thrifty, has a far better chance for improving his condition, for educating his family, for acquiring landed property than is the case with his brother in Europe is generally admitted. It could not well be otherwise where one may so easily exchange the forge or loom for the settler's cabin and the plow. The great mass of the American working people are better housed, better fed, better clothed, and in all respects better situated than the working millions of the nations whose ports are open to the world.

These are some of the reasons which appear to me to largely determine the persistent allegiance to the doctrine of Protection by the people of the United States. Of the ultimate adoption by nations of the principles of absolute free trade I have as little doubt as the most sanguine disciple of Adam Smith. But it is a dream of the far-distant future. It assuredly cannot be realized while the tramp of armies is louder than the din of the workshop. By America, however, the day of its adoption may be much nearer our own time. History often repeats itself. Like England, by thorough protection of our growing industries, we have laid the foundations of success in every branch of manufacture. So soon as our preëminence is absolutely assured, there will exist no longer the necessity to protect. Of that future we have apparently every reason to hope. When the production of American skill and industry is found in shops in Europe cheaper than their home-made wares, it is probable that we shall then take our turn in eulogizing free trade, in opening our ports to all nations, and in preaching the blessings of unrestricted trade to a reluctant and still doubting world.

#### 150. Protection and the Formation of Capital<sup>20</sup>

BY ALVIN S. JOHNSON

The additions to the capital of a nation must come from the annual income. That the income of a nation will, at any given time,

<sup>20</sup>Adapted from an article in the *Political Science Quarterly*, XXIII, 221-41. Copyright, 1908.

attain its maximum under freedom of trade is a proposition that admits of only rare exceptions. Does it not then follow that the capacity of a nation to accumulate capital will be greater under free trade than under protection? If all classes in society saved equal proportions of their incomes, it would follow of necessity that whatever tends to reduce the national income must reduce the annual addition to the fund of capital. But, in fact, the disposition to accumulate capital varies widely in the different classes that compose a nation; and it is the essence of protection to alter the proportions in which the social income is distributed. We cannot, therefore, accept without further examination the view that protection and the consequent reduction of the social income must necessarily retard the accumulation of capital.

Apart from purely individual differences in thrift, the tendency to save is affected by general economic and social conditions that enable us to divide the members of society into more or less distinct thrift classes. A man is not likely to save, if he knows of no investment attractive to him; he is not very likely to save if the road to the esteem of his fellows lies through expenditures for consumption.

The most attractive form of investment is the acquisition of tangible capital goods to be employed under one's own control. Such an investment gives visible evidences of economic efficiency. Accordingly those who are in a position to make such investments have the strongest incentive to save. These persons are entrepreneurs who have not yet fully equipped their businesses with capital. Them we may place in our highest thrift class. We may assign to a lower thrift class those who live upon salaries or returns from professional service. They have no ever-present means of investment; they are under the domination of rigid standards of consumption. They must, however, make provision for disability or superannuation. In a yet lower class I should place those who derive their incomes from rents, interest on mortgages and bonds, dividends on stocks,—the funded income class. They are in no peculiarly favorable situation to make new investments; they are subject to rigid standards of consumption; and they are under no compulsion to set aside a portion of their incomes for future needs. In the lowest class of all I place the great mass of workingmen, since they have the least favorable opportunity for investment and are subject to the most tyrannical standards of consumption.

When an industry reaches the acme of development, the position of the independent entrepreneur becomes assimilated to that of the recipient of funded income. Accordingly we are justified in drawing a distinction between the entrepreneur engaged in an industry which quickly attains its full development and those engaged in an



industry of practically unlimited development. Thus we arrive at the conclusion that the richest and most enduring sources of new capital are the interest and profits of the manufacturing entrepreneur class.

A practical tariff system cannot bestow all its benefits upon a higher thrift class and impose all its burdens upon a lower one. Nevertheless it can hardly be denied that the chief benefits of modern protectionism have been bestowed upon those engaged in capitalistic enterprise. In the United States protection, down to the present day, has meant little but the diversion of income from all other classes in society to the capitalist manufacturer. The farmer and wage-earner have carried a net burden; the manufacturer alone has secured a net gain. Here a rapidly developing agriculture has been taxed for the benefit of rapidly developing manufactures. Although under these conditions a high thrift class has been taxed, agriculture would quickly have attained a state of full development, and thus would have ceased to give large incentive to thrift. The impetus given to manufactures, which under modern conditions possess almost unlimited power of absorbing capital, must, of itself, have accelerated accumulation. It is worth noting that in the long run protection in a democratic state must favor the higher thrift classes at the expense of the lower. In every state protection is essentially a minority interest. The export industries can gain nothing from the policy; industries that supply a purely local demand also gain nothing. These two groups of industries outweigh the industries which would suffer under competition. The number of persons whose incomes are diminished by protection will greatly exceed the number of persons whose incomes are enlarged by it.

If it is true that the general tendency of modern protection has been to divert income from a lower to a higher thrift class we are justified in saying that protective duties have played a part in equipping modern society with the vast stock of capital goods which it now possesses. For proof of this we must have recourse to an analysis of the effects of protection upon capital formation in concrete instances. Let us suppose that in a country which formerly imported its silk a heavy duty is levied with the object of creating a silk-manufacturing industry at home. Men, intending to invest otherwise, are induced to go into the silk business. At the beginning the capital goods with which the new industry is equipped represent no net addition to the productive wealth of the country. But a new industry is naturally speculative in character; and the more conservative entrepreneurs are slow to enter it. In the nature of the case the industry will be undersupplied with capital. This means that capital will be more than ordinarily productive in the industry;

it means further that entrepreneurs will be steadily endeavoring to secure more capital to expand their operations. Under these circumstances it is inevitable that a large proportion of the profits created by the industry will be reinvested in it. Here then we have a net addition to the productive wealth of the country.

We arrive at practically the same result if we select a commodity entering chiefly into the consumption of the wage-earners. A large proportion of the wage-earning class saves practically nothing, whether wages are high or low. Standards of consumption tend to absorb any surplus income that may appear. A duty borne by the wage-earning class places little check upon accumulation. Thus the main effect of the duty is to divert income from a lower thrift class to a higher one, and hence to give an impetus to the formation of capital.

In answer to this line of argument it is alleged that a tariff constructed in such a way as to equalize costs of production at home and abroad would not permit the surplus profits out of which capital is built. This is true. But one may safely challenge all the economists in the world to point to one instance of a "scientific" tariff. In the nature of things there can be no such tariff. What manufacturers' association would conduct political campaigns, roll logs, and otherwise exert itself for the mere privilege of being placed on an equality with the foreigner? What would be the object in establishing a new industry if it were to offer only profits that might be secured from industries already existing?

It is true that if the protected industry operates under great natural disadvantages, as in the classical case of producing wine in Scotland, the burden to the consumer will be so much greater than the net gain of the producer that the net effect upon accumulation will be unfavorable. But it is not the practice of entrepreneurs to demand, nor of statesmen to grant, protection for industries that labor under extraordinary disadvantages. Rather the selection of industries for protection tends to be such that a greater part of the tribute exacted from the consumer is bestowed upon the producer in the form of profit instead of being wasted in the insane struggle with refractory natural conditions.

What is the test by which it can be determined whether the protective system shall be abandoned? By the academic protectionists, duties should be abolished when the protected industries are in a position to meet foreign competition. According to the theory here put forth, they should not be removed until the protected industries cease to develop rapidly. Then the duty should be removed whether the industry can meet foreign competition or not.

surrounds him with an atmosphere surcharged with a spirit that brings out his latent powers. Again, the fallacy of free trade is that it overlooks the possibility of developing new capacities for productive work.

The third glaring error is, in a sense, of a kind with the second. It is the assumption of a fixed quantity of each of the productive factors. Our own experience has demonstrated quite clearly the possibility of greatly increasing two of these factors, labor and capital, and in a way increasing the third, land, by the creation of an industrial system that allows a fuller utilization of natural resources. In the argument above, labor was the important factor; here capital takes the first place. The importance of a definite increase in the volume of capital is not clearly enough appreciated. Land, of course, physically speaking, is fixed in quantity. If a nation has reached the point of diminishing returns, an increase in numbers is attended by a fall in the standard of living. Material progress, then, is associated with an increase in the quantity of capital. Protection, as Professor Johnson has shown in another reading, increases for protected businesses the margins between costs and selling prices. A large part of the additional profits realized is turned back into the business in the form of reinvested capital. The growth of an industry is closely dependent upon its control by a permanent management who have vast pecuniary stakes in its success. This is possible only under a system which permits expansion through reinvestment of profits. This protection makes possible. The alternative, involving the investment of outside capital in the business, can be taken only at the cost of a sacrifice of part of the ownership, and, consequently, of the control of the enterprise. Since, therefore, material progress is dependent upon the addition of new increments to the available supply of capital, its debt to protection is a large one.

Since protection increases the amount of invested capital, it follows that it increases the incomes of the mass of individuals. The argument is perhaps already evident, but let us state it, at least for the most important share in distribution, that of labor. As political economists agree, the wages of labor depend upon the marginal productivity of the laborer. Capital increases that productivity, and consequently raises wages. To illustrate, let us take two countries, Denland and Norland. They possess the same number of laborers, similar natural resources, the same technical system, and the same amount of accumulated capital. It is evident that under our principle, the real wages will be the same in the two countries. If, however, Denland differs from Norland only in having a larger amount of accumulated capital, then the marginal laborer in that country is

working with improved equipment, and will turn out a larger product than the marginal laborer in Norland. Accordingly wages will be higher. Likewise, an increase in accumulated capital in Norland itself improves the facilities with which the marginal laborer works, and consequently increases his product and his wage. Under protection, therefore, wages will be higher than under free trade.

Protection, as a system, has seemed to the economists to lack a fundamental basis only because they have insisted upon judging it on the basis of the static and individualistic assumptions underlying their own creeds. We must remember that free trade is a theory of the proper utilization of definitely limited factors of production. Protection is a theory of the development out of crude human stuff and natural resources of the largest possible productive funds and of the best conservation of these funds. It goes back of the factors of production, the starting-point of the free trader, and seeks to increase their size and intensify their force. When development stops, and society becomes static, then it will be to our advantage to adopt the free-trade theory of maximum utilization. But so long as industrial society possesses capacity for growth, we can best profit by clinging to the use of the developmental theory of protection.

## F. THE TARIFF AND WAGES

### 152. Wages—Cause or Effect?

#### a) *High Wages and Protection*<sup>22</sup>

BY DANIEL WEBSTER

The present price of iron at Stockholm is not far from \$40.00 at the mines. Freight, insurance, and duty make the price of Swedish iron in our market about \$83.00. We perceive by this fact the cost of the iron is doubled in reaching us from the mine in which it is produced. Why, then, cannot iron be manufactured at home? Our ore is as good, or better. Nothing could be more sure of a constant sale. It is an article of absolute permanent necessity.

Sir, the true explanation seems to me to lie in the present prices of labor. I think it would cost us precisely that which we could worst afford, that is, great labor. The principal ingredient in the cost of bar iron is labor. Of manual labor, no nation has more than a certain quantity, nor can it be increased at will. As to some operations, indeed, its place may be supplied by machinery; but there are other services which machinery cannot perform for it, and which it

<sup>22</sup>Adapted from a speech delivered in the House of Representatives, April 1 and 2, 1824.

must perform for itself. A most important question for every nation is how it can best apply that quantity of labor which it is able to perform. Labor is the great producer of wealth; it moves all other causes. If we call machinery to its aid, it is still employed, not only in using the machinery, but in making it. Now, with respect to the quantity of labor different nations are differently circumstanced. Some need, more than anything, work for hands; others require hands for work; and if we ourselves are not absolutely in the latter class, we are still, most fortunately, very near it. I cannot find that we have idle hands. The price of labor is a conclusive and unanswerable refutation of that idea; it is known to be higher with us than in any civilized state, and this is the greatest of all proofs of general happiness. Labor in this country is independent and proud. It has not to ask the patronage of capital, but capital solicits the aid of labor. This is the general truth in regard to the conditions of our whole population. The mere capacity to labor in common agricultural employments gives to our young men the assurance of independence. We have been asked whether we will allow the serfs of Russia and Sweden the benefit of making iron for us? Those same serfs, sir, do not make more than seven cents a day, and they work in these mines for that compensation because they are serfs. Have we any labor in this country that cannot be better employed than in a business which does not yield the laborer more than seven cents a day? This, it appears to me, is the true question for our consideration. There is no reason for saying that we will work iron because we have the mountains that contain the ore. We might for the same reason dig among our rocks for the scattered grains of gold and silver which might be found there.

*b) Protection and High Wages<sup>23</sup>*

Not only are wages in the United States twice or three times the average of Europe and from ten to twenty times those of Asiatic countries, but our hours of labor are the fewest in the world.

So far as can be learned from a rough computation of the averages in the United States, the American laborer now gets fully \$2.50 per day in a week of 54 hours' work. If we should take the average of all men, women, and children wage-earners in this country, it would be well beyond the dollar-a-day line.

The question then follows: Is not the cost of living proportion-

<sup>23</sup>Adapted from "Wages and Causes," *American Economist*, XXVIII (1901), 175.

ally more here than abroad? There is very little difference, the same things considered, but the American lives much better and his needs are far in excess of the foreigner's because of his education, his intelligence, and his tastes. The American two-dollar-a-day man not only gets a better living for himself and his family than the European dollar-a-day man, but the American has another dollar for comforts, conveniences, luxuries, and pleasures unknown to the European laborer.

There must be some reason for this state of affairs, and this reason is the American system of protection. That system tends to make us do practically all our own work, keeping our money at home and in constant circulation, creating and sustaining a purchasing ability that demands more and more production, the very producers becoming greater consumers of each other's products.

We are not an agricultural people. We are not a manufacturing people. We are not a mining people. Nor are we fishermen or foresters. We are productive people, and our productions include every need of man and nearly every luxury. Our small surplus is readily sold abroad, and to a greater extent than our purchases.

This is the American system of protection. This is the reason for American wages and the cause of American habits and ways of living. Our diversification of production is the greatest economic leaven of our almost immeasurable loaf of prosperity. There is only one thing that will permanently lessen it—a reduction of wages made necessary by a repeal of one or more tariff schedules bringing us into competition with the dollar-a-day labor of Europe and the dime-a-day labor of Asia. Nor does the whole chain of interdependent industries have to be broken. The breaking of a single link will work irreparable disaster. We must preserve intact our splendid American policy of protection and its attendant high wages and universal prosperity.

### 153. The Effect of Industrial Changes on Wages<sup>24</sup>

BY ALVIN JOHNSON

*A policy that draws labor from the fields that are of greater natural productiveness to fields of lower natural productiveness tends to reduce wages.*

In any country wages are determined by the marginal productivity of labor. We will represent the various opportunities of employment that a country like the United States affords by the symbols, A, B, C, and D. A may stand for a group of industries in which

<sup>24</sup>Adapted from *Introduction to Economics*, pp. 359-61. Copyright by D. C. Heath & Co., 1909.

we have exceptional advantages over foreign countries. B stands for a group of industries in which our advantages are less, C one in which they are still less, and D the group of industries in which they are least of all. When our population is so small that all our labor can be engaged in the group represented by A, wages will be at their maximum. When our population increases so that some of the labor will have to be set to work in group B, the wages of all labor must decline to the level of the productivity in that group. We will suppose that population has increased up to a point where the opportunities represented by A and B are fairly well manned, and wages are determined by the productivity of labor in B.

With wages thus determined, it is clear that no employer, without governmental aid, can afford to hire labor to exploit the opportunities represented by C and D. This would necessitate paying labor in C and D as much as it produces in B, and that by hypothesis is more than it produces in C and D.

Now let us suppose that a political party is in power which holds the belief that we should produce everything that we consume, that is, that the opportunities represented by C and D should be exploited as well as those represented by A and B. Labor may be drawn away from A and B. This involves the necessity of compensating entrepreneurs in some way for the disadvantages under which they will operate in C and D. Either wages must be reduced in A and B, or some form of subsidy must be granted to C and D.

The commodities that the industries composing C and D will produce have been hitherto, we assume, obtained from abroad through exchange for commodities produced by A and B. The government now renders this difficult by placing high duties upon the former class of commodities. This means that producers in the groups A and B—both employers and workmen—must pay higher prices for what they buy. They do not receive higher prices for what they sell; in fact, they receive lower prices, as this, we have seen, is the effect of protective duties upon export industries. It appears, then, that part of the disadvantage of producers in C and D is removed by reducing wages in A and B.

After the duty has gone into effect and the prices of commodities that can be produced by C and D have risen sufficiently, enterprisers will be able to hire labor at the wages prevailing in A and B, and establish industries in C and D. So far as the remaining laborers in A and B buy the products of C and D, the difference between the price which they pay for those products and the price that they would pay if they were permitted to import those products duty-free is a tax paid not to the government, but to the producers in C and D,

to enable the later to remain in business. It is an uncompensated deduction from the natural earnings of the laborers in A and B. Their wages have been reduced. Nor are the workers in C and D paid as much, estimated in purchasing power, as they would have received if they had been allowed to remain in A and B under the earlier conditions. The net effect of the imposition of the duty has been to saddle the self-supporting industries, A and B, with the support of the pauper industries, C and D. Yet the inventors of this policy have the effrontery to tell laborers in A and B that this policy is the bulwark of their high rate of wages!

The principles involved in the illustration may be stated in the following general terms: Wages in any country will be at the highest point when all the labor of that country is concentrated in the industries in which its relative advantages over other countries are greatest. If there are no protective duties whatsoever, employers will, as a rule, seek out the industries in which their country has the greatest relative advantages. Protective duties enable other industries to exist, but only through taxing the more productive industries for their support. Protection as a permanent policy means a slight reduction of money wages, and a greater reduction in wages estimated in purchasing power.

## G. TARIFF POLICY IN PROCESS

### 154. A Half-Century of Tariff History<sup>25</sup>

BY HARRISON S. SMALLEY

A study of the historical setting of the current tariff problem need not take us back beyond the period of the Civil War. True, the tariff had played a part in politics from the beginning, a part out of all proportion to its real importance. For the first quarter-century of our national existence the idea of protection had found but precarious foothold in our tariff schedules. However, the natural protection furnished by the Napoleonic wars had resulted in the establishment of many manufacturing industries, which had proceeded to make their presence known immediately the war was over. The result had been a series of bills granting relatively high duties from 1819 and 1824 until 1846. However, the South had opposed, and the high level of duties had, even in those days, been subject to many vicissitudes. From 1846 until the Civil War the dominant theory underlying tariff policy had been that of revenue, but protective features had not been

<sup>25</sup>Adapted from "A Short Sketch of American Tariff History," in *Readings in Political Economy*. Privately published, 1911.



entirely abandoned. However, as we have said, the present era properly begins with the Civil War.<sup>26</sup>

The Morrill law, passed in 1861, raised the level of duties quite substantially. Modifications in duties were constantly being made throughout the conflict, and in the end the level of duties was very greatly raised.

Although the idea of protection was quite prominent, the primary reason for the increase was the need of revenue. The government had adopted a most elaborate policy of internal taxation, including taxes on manufactured goods. It seemed just, therefore, since American producers were burdened with excise duties greatly increasing their costs of production, to protect them by a proportionally higher tariff duty. In fact, had this not been done, the government's attempt to collect revenue in many cases would have failed. Accordingly many "compensating duties" were added to the already high rates. This level was still further raised through the efforts of designing congressmen, who found it easy to secure duties for favored industries under the pretense of raising revenue.

During the war no one imagined that the excessive duties would be permanent. But the war passed, and tariffs have come and gone, but still we have a general level of duties about like that which prevailed at the end of the war. Soon after hostilities ceased Congress began to repeal the special internal revenue duties. But the compensating duties, made necessary by these, were not taken off. So today we are still paying many special duties designed to compensate manufacturers for duties which have not been levied upon them for forty years.

Several reasons may be assigned for the failure of Congress to reduce the war tariff after the close of the conflict. Its attention was largely drawn to the problems of reconstruction in comparison with which the tariff was a minor issue. Again, southern opinion, which alone was favorable to free trade, was not strong. Furthermore, the tariff was in a state of great confusion, and its intelligent revision would have required a great deal of time and care. Still another factor of a political character was probably of considerable consequence. The Republican party had been organized as a protest against the spread of slavery. With the successful termination of the Civil War its object was accomplished. Hence it was left without a special reason for its continued existence. If the party was to remain a force in politics it must have a positive platform on which to stand. So the Republican leaders seized upon protection and made it one of their leading policies. But most important of all, the protected interests exerted in the congressional lobbies a powerful in-

<sup>26</sup>Mr. Smalley is not responsible for the opening paragraph.

fluence to prevent a reduction of duties. Indeed, from that time to this the pressure brought by protected producers upon Congress and congressmen has been the most serious obstacle in the way of tariff reform. For these reasons the war tariff level was maintained. Within a few years the popular mind became accustomed to high protection and more or less adjusted to it, and the lobbyists and representatives of protected interests found it relatively easy to secure what they wanted from Congress.

Readjustments were, of course, made; but they were more numerous than important. In 1870 under cover of certain reductions the duties were raised on a large number of articles. In 1872, because of surplus revenue, it was thought expedient to make a horizontal reduction of 10 per cent. Putting coffee and tea on the free list evidenced the determination of Congress to lower revenue rather than protective duties. In 1875 the tariff was restored to its former level. Because of a popular demand and another excess of revenue the schedules were again revised in 1883. The effort to satisfy the popular demand and at the same time to save the principle aroused considerable protest. In 1888 Cleveland came out strongly in favor of tariff reduction.

Viewing their victory at this election as a vindication of their policy, the Republicans proceeded to adopt a new tariff, the McKinley Act, which surpassed in altitude all previous achievements. How well the demand for reducing revenue without sacrificing favors was met is evidenced by their action in removing the duty on sugar, averaging 2 cents a pound, and substituting for it a bounty of 2 cents a pound on all sugar produced in this country.

The popular protest was immediate. In the election of 1890 the Democrats captured the House, and won the presidency and the Senate two years later. The panic of 1893, which came while the McKinley Act was a law, and the troubles over the coinage of silver, for a time delayed revision. They also served to destroy party unity. A bill was passed by the House embodying substantial reductions. This, however, was radically amended by the Senate, the Republicans and a few bolting Democrats being responsible for the changes. The bill as passed embodied a series of duties lower than those of the McKinley bill, but substantially higher than those of the tariff of 1883. President Cleveland was so displeased that he allowed the bill to become a law without his signature.

The act failed to relieve the depression following the panic which had been caused very largely by the silver legislation of the Republicans. Perhaps no tariff bill could have mended matters. Certainly there was no threat to business in the Wilson-Gorman bill. Yet people began to blame the act for the failure of business to recover from the

panic. The opportune reappearance of the silver question offered the Democrats a way of sidetracking the tariff. So, when Bryan in the national convention of 1896 made his "cross of gold" speech, he was hailed as the new leader of the party, and the free coinage of silver was declared to be the paramount issue.

Nevertheless, the tariff was not by any means lost from view. The Republicans, victorious in the election of 1896, felt authorized to raise the tariff once more. In consequence, they passed the Dingley law of 1897, which was a revision upward, restoring the general level of the McKinley Act.

By 1900 the Republicans had formulated an argument which proved most effective. It was: "From 1894 to 1897 we had a Democratic tariff and hard times; from 1897 to 1900 we have had a Republican tariff and prosperity." Some members of the party went so far as to attribute the panic of 1893 to the Wilson-Gorman bill, which was not passed until more than a year later. It made no difference that the Democratic tariff had been a high protective measure. Nor did it make any difference that the hard times and prosperity were due to a very large number of other causes. *Post hoc* is *propter hoc*. The Democrats lacked courage to meet the issue, and attempted to use Imperialism as a shield.

By 1904 sentiment favorable to revision had again begun to appear. The rise of the trusts, the revival of the old fear of monopoly, and the knowledge that these combinations had in many cases been able to charge high prices because they were protected from foreign competition gave impetus to the movement for tariff reform. This was increased by the growing concern over the increase in the cost of living. By 1908 the sentiment was so strong that the Republicans promised that, if successful in the election, they would revise the tariff. The courage of the Democrats had returned and they demanded downward revision both in 1904 and in 1908.

The result of the Republican victory was a special session of Congress in 1909, at which the Payne-Aldrich Act was passed. This act decreased many duties but raised many others. The general level of the Dingley bill of 1897 was maintained. It permitted no compromising of the protective principle. As yet it is not evident that it contained changes tending either to curb monopolies or to reduce the cost of living.

### 155. Recent Tariff History<sup>27</sup>

The protest against the Payne-Aldrich bill was immediate and outspoken. At the biennial election in 1910 the Democrats won con-

<sup>27</sup>An editorial (1915, 1925).

trol of the House by a substantial majority. Looking ahead to the presidential election of 1912, and sparring for political advantage, the majority party in the House passed several bills amending parts of the tariff act. These lowered duties, particularly on wool and products used on the farm. A personal revolt against President Taft within his party added enough votes to the Democratic minority to secure the passage of these bills through the Senate. But, as was to be expected, they were vetoed by the President.

In 1912 the tariff again became one of the main issues in the election. The sentiment for revision was based upon a number of quite different considerations. The opposition to monopoly and a belief that by legislation the government could furnish relief from the high cost of living were perhaps dominant. A belief that the tariff was conferring "special favors" upon privileged individuals, and hence was contrary to the spirit of government, was very widespread. In addition there was a substantial demand from quite a considerable contingency of manufacturers and commercial men favorable to revision. This demand was to a considerable extent due to the changed industrial position of the country. The era of prosperity through which we had passed had led to an enlargement of many plants to a point where they could supply much more than the domestic demand for their commodities. Since these businesses were in the stage of diminishing costs, they were anxious to find wider markets. Realizing that foreign trade is reciprocal, the manufacturers involved were aiming to create a domestic demand for additional foreign products in order that foreigners might have claims with which to buy American goods. Consequently some manufacturers who, in 1897, when the fight was for the domestic market, favored high duties, in 1912 were found demanding lower duties. This sentiment was strengthened by a feeling that in some branches protection was no longer necessary. This demand from manufacturers is significant because of its evidence of a change in America's position in international trade.

Although division in Republican ranks was instrumental in giving Wilson an unprecedented vote in the electoral college, and in securing for the Democrats control of the Senate and House, there is little doubt that the country at large stood committed to a downward revision of the tariff. This was undertaken at a special session of Congress and culminated in the act of October 3, 1913. The making of no tariff bill in two generations was less influenced by the representatives of special interests sent to Washington. The bill was not extreme, but represented a genuine attempt to reduce duties. Its most significant changes were in putting wool on the free list imme-

diately and sugar at the end of two and a half years. The former was a result of the popular agitation against the notorious Schedule K of the Payne-Aldrich Act. With free wool went the removal of the specific compensatory duties on woolens, as well as the specific duties on cottons and silks. Iron ore, pig iron, steel rails, and agricultural implements were all put on the free list. The act substituted many *ad valorem* for specific duties. But, since the reductions were in many cases upon articles which we habitually export, they were nominal rather than real. The reduction of duties on agricultural products is a case in point.

Before the Underwood-Simmons Tariff Act had been in force for a year, the world-war broke out. A treat of declining prices and wages, a hysterical fear of foreign competition, and an after-the-war expression of nationalism combined with a change in parties toward an upward revision of duties.

The new tariff act, passed in 1922, exhibits a return to the policy of high protection. Iron and steel products, automobiles, and a few other articles were left at the former figures or were actually lowered. The duties upon cottons, woolens, silks, and linens in general followed the rates fixed in the Payne Aldrich Tariff Act of 1909. The rates on various chemicals and manufactured articles, such as cutlery and toys, were substantially raised. Despite great opposition, heavier imposts were laid upon the importation of raw sugar, which through emergency acts had ceased to come in free, and upon raw wool. The hazards of statistics are far too numerous to warrant an intelligible statement about the average increase in the rate of duty. Besides, in a comparison with other bills differences in the price levels must be taken into account.

It is too much to hope that the tariff question is settled. The recent act is too much a repetition of an oft-repeated story for that. The aftermath of the war presents too many conflicts between the interests of banking and commercial groups and the incidence of current rates to assure to the present law a secure place upon the statute-book. Besides, the old sectional clash, intensified by an industrial struggle between the interests which demand foreign markets and the industries which still wish domestic protection, is too strong for that. The questions of the distribution of wealth between classes will also serve to keep it alive. Yet, since we are coming to grapple with the more vital problems of a full-grown industrial system, it seems safe to say it will never again have the importance which it has had in the past.

156. The Tariff Commission<sup>28</sup>

BY THOMAS WALKER PAGE

A movement for establishing a permanent tariff commission, organized early in the twentieth century, achieved a temporary success, but quickly succumbed.

Following its promise of a revision that would adjust duties and make them equal to the difference between domestic and foreign costs of production together with a reasonable profit to American producers the Republican party won the election of 1908. But in preparing the act of 1909 efforts and plans to ascertain costs differed in no respect from those used on former occasions. Several bills for the establishment of a tariff commission died quietly in committee. It happened, however, that the act of 1909 had empowered the President to procure assistance in discharging certain new duties that were laid upon him, the most important of which was the enforcement of a retaliatory provision in the law. This was to the effect that if the tariff of any country failed to give to the imports of the United States treatment as favorable as it gave to imports from any other country, the President should cause to be levied upon goods from the offending country a heavy additional duty equal to 25 per cent of their value. Accordingly President Taft appointed a board of three Republicans, whose work was devoted to investigating the terms and the enforcement of foreign tariffs and trade agreements. But the passage by both houses of a bill for a bipartisan tariff commission, and its eventual defeat only through a filibuster on the last day of the short session, was taken by the President as equivalent to an expression of the intent of Congress that such a commission should be established. Using the power granted him to procure assistance, therefore, he added two Democratic members to the board already in existence and directed that its investigations should be extended to cover domestic and foreign costs of production with a view to amending the American tariff.

But it was primarily on the tariff issue that the Democrats had secured their majority in the House in the election of 1910; and they believed that on their way of handling this issue would depend the fate of the party at the next election. For that reason even the more moderate among them were unwilling to admit the need of an agency created by a Republican President and composed mainly of Republican members. Accordingly, the Committee on Ways and Means an-

<sup>28</sup>Adapted from *Making the Tariff in the United States*, pp. 21-58; 207-9. Copyright by McGraw-Hill Book Co., Inc., 1924.

nounced that it would proceed without waiting for reports from the Tariff Board. By direction of the President the Tariff Board strained every effort to complete an investigation of costs of production of wool and woollens in time for such use as Congress might be disposed to make of it, but found it impossible to finish its work before the committee had determined on the rates it recommended to the House. It required no great effort to discredit the work of the Tariff Board in the minds of a Congress where the number of its sincere defenders was small. In the summer of 1912, therefore, when the Democrats of the House omitted from the Sundry Civil Bill an appropriation for the Tariff Board the Republican Senate concurred in conference, and the board went out of existence.

It was not until the Democrats took over the control of all the branches of the government in 1913 that effective action upon the tariff became possible. It was then that the report of the defunct Tariff Board were found to be of genuine service on the schedules which they covered. Powerful new reasons, also, for establishing a commission were furnished by the outbreak of war in Europe. The conditions under which foreign trade had been prosecuted were suddenly and fundamentally altered. Agriculture and manufacturing were affected in hardly less degree. In addition to military and naval restrictions on commerce there developed among the warring nations economic pacts and agreements looking to the annulment of the familiar commercial treaties under which international trade had developed, and to the perpetuation, when peace should return, of discriminations and special concessions. On the initiative of the President, Congress provided for such a systematic and careful investigation of commercial restrictions and industrial developments as might furnish the information that would be needed so soon as the international situation became stable enough to justify tariff legislation. It was therefore both new and old considerations that in September, 1916, led to the passage, after serious opposition in both parties, of an act establishing a bipartisan tariff commission.

The Tariff Commission was not authorized to recommend policies or suggest rates. Fixing duties is the essential part of a tariff act, and it was primarily, not indeed to do this but to aid Congress in doing it, that the commission was established. In regard to making rates, the law laid it down as the duty of the commission to investigate "the operation of the customs laws, including their relation to the Federal revenues, their effect upon the industries and labor of the country, and to submit reports of its investigation." The law also gave the commission discretionary power to investigate "the volume of importations compared with domestic production and consumption, and conditions,

causes, and effects relating to competition of foreign industries with those of the United States, including dumping and cost of production." In short, the commission was authorized to report facts only, without opinions and without recommendations. It should be added, in partial explanation of the commission's apparent lack of influence, that in spite of all temptation to exceed its authority it scrupulously adhered to the limitations set by law.

The publications of the commission have been numerous; they have dealt with matters of practical importance and have served as the basis for some legislation and for some negotiation on international trade. Its recommendations of changes in classification pointed the way to a more scientific construction of the bill. These recommendations, though not adopted in full, bore fruit in the act of 1922 in manifest improvement in the phraseology of several schedules. In each report the commission aimed to give, without prejudice, all pertinent facts in regard to the industry it covered; but it did not balance these facts against one another, interpret them and weigh their evidence, and state definitely what rates of duty they indicated. Had it done this, without doubt it would have more strongly influenced the action of Congress, but at the same time it would have gravely exceeded the duties prescribed for it by law.

Dissatisfaction with the manner in which the tariff is made became so acute during the preparation of the act of 1922 that proposals were seriously put forward for taking the actual determination of rates out of the hands of Congress altogether. The belief was quite general that, owing to the unsettled condition of industry and commerce after the war, it was altogether impossible to fix duties with any feeling of security in their adequacy for either revenue or protection. Production and costs and prices were still subject after the war to wild and irregular fluctuation. The money of Europe as a measure of value was almost meaningless. Its worth in terms of American money varied not only from month to month but even from day to day. What sort of competition even the near future might bring forth no man could foresee.

As a result, the act of 1922 contains a provision which empowers the President with certain limitations to change duties by proclamation. This has come to be known as the "flexible tariff" provision. The substance of it is that when the President shall ascertain upon investigation that any duty named in the act does not "equalize" the difference between foreign and domestic costs of producing the article on which it is levied, he shall do one or the other of three things, namely, change the classification of the article so as to make it dutiable under a different rate, or change the basis of assessing the rate of duty from



the foreign value of the article concerned to the value in the American market, or change the rate of duty by not more than 50 per cent. It is further provided that investigations to assist the President in ascertaining differences in costs of production shall be made by the United States Tariff Commission and that he shall issue no proclamation changing a duty until an investigation has been made.

Modification of the tariff by proclamation of the President has been negligible. In June, 1924, the Tariff Commission sent to the Senate a report on the progress of its work. \* The time lacked but three months of completing the two-year period for which the Committee on Finance had first proposed that the "flexible" provision of the tariff should remain in force. At that date the President had ordered no changes of duty, except on wheat and wheat products, barium dioxide, and sodium nitrite. The commission meanwhile had received requests for investigation from 172 industries. Thirty-seven investigations had been instituted, but of these 8 had been suspended, only 3 had been completed and their results laid before the President, and the rest were in various stages of progress. To regard the present tariff, therefore, as "flexible" one must view it from a geological standpoint.

The provision for a "flexible" tariff in the act of 1922 is a departure from the customary practice more in appearance than in reality. The power which it confers on the President to alter duties by proclamation, even if it should be found constitutional, is restricted in such a manner that he will seldom exercise it. It is true that when the act was passed there were grave doubts of the adequacy of the duties for the purpose intended, owing to the unstable conditions of industry and commerce all over the world, and there were predictions by its sponsors that another revision would soon be necessary. But the party responsible for the act has manifested a growing conviction that the existing duties meet the necessities of the situation well enough to justify refraining from further "tinkering with the tariff." Accordingly, disregarding a few isolated changes which the President may make, there is no reason to expect that Congress will undertake a thoroughgoing revision for some time to come unless the present majority should be upset.

Then why hasten to transmit information? What is the use of printing reports on the tariff when Congress will not consider them until a revision is under way? The answer is that information of this kind does not break as a sudden revelation upon members of Congress. It reaches them gradually through many channels. Much of the service to be expected from a commission's work must be rendered before the framing of a tariff bill begins.

The transmission of reports to Congress implies that they will be printed and become available for distribution. They will be studied with care as soon as they appear by those who are engaged in any industry or branch of commerce affected by them. The data will be checked and the validity of conclusions will be scrutinized. The substance of them will be reproduced in the technical journals, and their general significance will find its way into the more popular press. Public opinion will gradually respond to the facts set forth on the authority of an agency qualified to inspire confidence. Prospective candidates will be restrained in making promises and committing themselves to lines of action which are shown by authentic documents already in the hands of the public to be opposed to the national welfare. Private interests will be similarly restrained in the claims they make. In consequence, when the Committee on Ways and Means sets to work on a revision of the tariff, it will find the public better prepared to recognize rates that are dictated by special interests, and Congress will find itself less responsive to local, selfish, and partisan influence.

## H. ASPECTS OF TARIFF-MAKING

### 157. What a Tariff Bill Is Like<sup>20</sup>

#### TITLE I

##### SCHEDULE I.—CHEMICALS, OILS, AND PAINTS

PARAGRAPH 1. Acid and acid anhydrides: Acetic acid containing by weight not more than 65 per centum of acetic acid, three-fourths of 1 cent per pound; containing by weight more than 65 per centum, 2 cents per pound; acetic anhydride, 5 cents per pound; boric acid, 1½ cents per pound; chloroacetic acid, 5 cents per pound; citric acid, 17 cents per pound; lactic acid, containing by weight of lactic acid less than 30 per centum, 2 cents per pound; 30 per centum or more and less than 55 per centum, 4 cents per pound; and 55 per centum or more, 9 cents per pound: *Provided*, That any lactic-acid anhydride present shall be determined as lactic acid and included as such: *And provided further*, That the duty on lactic acid shall not be less than 25 per centum ad valorem; tannic acid, tannin, and extracts of nutgalls, containing by weight of tannic acid less than 50 per centum, 4 cents per pound; 50 per centum or more and not medicinal, 10 cents per pound; 50 per centum or more and medicinal, 20 cents per pound;

<sup>20</sup>Adapted from *Tariff Act of 1922 on Imports into the United States*, pp. 1-85. The reproduction of the act in its entirety would require about one hundred and fifty pages of the size of this one.

tartaric acid, 6 cents per pound; arsenic acid, 3 cents per pound; gallic acid, 8 cents per pound; oleic acid or red oil,  $1\frac{1}{2}$  cents per pound; oxalic acid, 4 cents per pound; phosphoric acid, 2 cents per pound; pyrogalllic acid, 12 cents per pound; stearic acid,  $1\frac{1}{2}$  cents per pound; and all other acids and acid anhydrides not specially provided for, 25 per centum ad valorem.

PAR. 2. Acetaldehyde, aldol or acetaldol, aldehyde ammonia, butyraldehyde, crotonaldehyde, paracetaldehyde, ethylene chlorohydrin, ethylene dichloride, ethylene glycol, ethylene oxide, glycol monoacetate, propylene chlorohydrin, propylene dichloride, and propylene glycol, 6 cents per pound and 30 per centum ad valorem.

PAR. 28. Coal-tar products: All colors, dyes, or stains, whether soluble or not in water, color acids, color bases, color lakes, leuco-compounds, whether colorless or not, indoxyl and indoxyl compounds; ink powders; photographic chemicals; acetanilide suitable for medicinal use, acetphenetidine, acetylsalicylic acid, antipyrine, benzaldehyde suitable for medicinal use, benzoic acid suitable for medicinal use, beta-naphthol suitable for medicinal use, guaiacol and its derivatives, phenolphthalein, resorcinol suitable for medicinal use, salicylic acid and its salts suitable for medicinal use, salol, and other medicinals; sodium benzoate; saccharin; artificial musk, benzyl acetate, benzyl benzoate, coumarin, diphenyloxide, methyl anthranilate, methyl salicylate, phenylacetaldehyde, phenylethyl alcohol, and other synthetic odoriferous or aromatic chemicals, including flavors, all of these products not marketable as perfumery, cosmetics, or toilet preparations, and not mixed and not compounded, and not containing alcohol; and all mixtures, including solutions, consisting in whole or in part of any of the articles or materials provided for in this paragraph, excepting mixtures of synthetic odoriferous or aromatic chemicals, 45 per centum ad valorem based upon the American selling price of any similar competitive article manufactured or produced in the United States, and 7 cents per pound: *Provided*, That for a period of two years beginning on the day following the passage of this Act the ad valorem rate of duty shall be 60 per centum instead of 45 per centum.

PAR. 44. Ink, and ink powders not specially provided for, 20 per centum ad valorem.

PAR. 45. Iodine, resublimed, 20 cents per pound.

#### SCHEDULE 2.—EARTHS, EARTHENWARE, AND GLASSWARE

PAR. 201. Bath brick, chrome brick, and fire brick, not specially provided for, 25 per centum ad valorem; magnesite brick, three-fourths of 1 cent per pound and 10 per centum ad valorem.

PAR. 210. Common yellow, brown, or gray earthenware made of natural, unwashed, and unmixed clay, plain or embossed; common salt-glazed stoneware; stoneware and earthenware crucibles; all the foregoing not ornamented, incised, or decorated in any manner, 15 per centum ad valorem; ornamented, incised, or decorated in any manner and manufactures wholly or in chief value of such ware, not specially provided for, 20 per centum ad valorem; and Rockingham earthenware, 25 per centum ad valorem.

PAR. 218. Biological, chemical, metallurgical, pharmaceutical, and surgical articles and utensils of all kinds, including all scientific articles, utensils, tubing and rods, whether used for experimental purposes in hospitals, laboratories, schools or universities, colleges, or otherwise, all of the foregoing, finished or unfinished, composed wholly or in chief value of glass or paste, or a combination of glass and paste, 65 per centum ad valorem.

PAR. 227. Optical glass or glass used in the manufacture of lenses or prisms for spectacles, or for optical instruments or equipment, or for optical parts, scientific or commercial, in any and all forms, 45 per centum ad valorem.

#### SCHEDULE 3.—METALS AND MANUFACTURES OF

PAR. 301. Iron in pigs, iron kentledge, spiegeleisen containing more than 1 per centum of carbon, 75 cents per ton; wrought and cast scrap iron, and scrap steel, valued at not more than 7 cents per pound, 75 cents per ton: *Provided*, That spiegeleisen for the purposes of this Act shall be an iron manganese alloy containing less than 30 per centum of manganese: *Provided further*, That nothing shall be deemed scrap iron or scrap steel except secondhand or waste or refuse iron or steel fit only to be remanufactured.

PAR. 304. Steel ingots, cogged ingots, blooms and slabs, by whatever process made; die blocks or blanks; billets and bars, whether solid or hollow; shafting; pressed, sheared, or stamped shapes, not advanced in value or condition by any process or operation subsequent to the process of stamping; hammer molds or swaged steel; gun-barrel molds not in bars; alloys not specially provided for used as substitutes for steel in the manufacture of tools; all descriptions and shapes of dry sand, loam, or iron molded steel castings; sheets and plates and steel not specially provided for; all of the foregoing valued at not over 1 cent per pound, two-tenths of 1 cent per pound; valued above 1 cent and not above  $1\frac{1}{2}$  cents per pound; three-tenths of 1 cent per pound; valued above  $1\frac{1}{2}$  and not above  $2\frac{1}{2}$  cents per pound, five-tenths of 1 cent per pound; valued above  $2\frac{1}{2}$  and not

above  $3\frac{1}{2}$  cents per pound, eight-tenths of 1 cent per pound; valued above  $3\frac{1}{2}$  and not above 5 cents per pound, 1 cent per pound; valued above 5 and not above 8 cents per pound,  $1\frac{7}{10}$  cents per pound; valued above 8 and not above 12 cents per pound,  $2\frac{1}{2}$  cents per pound; valued above 12 and not above 16 cents per pound,  $3\frac{1}{2}$  cents per pound; valued above 16 cents per pound, 20 per centum ad valorem: *Provided*, That on steel circular saw plates there shall be levied, collected and paid an additional duty of one-fourth of 1 cent per pound.

PAR. 330. Nuts, nut blanks, and washers, of wrought iron or steel, six-tenths of 1 cent per pound; bolts, with or without threads or nuts, and bolt blanks, of iron or steel, 1 cent per pound; spiral nut locks, and lock washers, of iron or steel, 35 per centum ad valorem.

PAR. 363. Sword blades, and swords and side arms, irrespective of quality or use, wholly or in part of metal, 50 per centum ad valorem.

PAR. 364. Muzzle-loading muskets, shotguns, rifles, and parts thereof, 25 per centum ad valorem.

PAR. 369. Automobiles, automobile bodies, automobile chassis, motor cycles, and parts of the foregoing, not including tires, all of the foregoing whether finished or unfinished, 25 per centum ad valorem: *Provided*, That if any country, dependency, province, or other subdivision of government imposes a duty on any article specified in this paragraph, when imported from the United States, in excess of the duty herein provided, there shall be imposed upon such article, when imported either directly or indirectly from such country, dependency, province or other subdivision of government, a duty equal to that imposed by such country, dependency, province, or other subdivision of government on such article imported from the United States, but in no case shall such duty exceed 50 per centum ad valorem.

PAR. 370. Airplanes, hydroplanes, motor boats, and parts of the foregoing, 30 per centum ad valorem.

#### SCHEDULE 5.—SUGAR, MOLASSES, AND MANUFACTURES OF

PAR. 501. Sugars, tank bottoms, sirups of cane juice, melada, concentrated melada, concrete and concentrated molassés, testing by the polariscope not above seventy-five sugar degrees, and all mixtures containing sugar and water, testing by the polariscope above fifty sugar degrees and not above seventy-five sugar degrees,  $1\frac{24}{100}$  cents per pound, and for each additional sugar degree shown by the polariscopic test, forty-six one-thousandths of 1 cent per pound additional, and fractions of a degree in proportion.

## SCHEDULE 7.—AGRICULTURAL PRODUCTS AND PROVISIONS

PAR. 701. Cattle, weighing less than one thousand and fifty pounds each,  $1\frac{1}{2}$  cents per pound; weighing one thousand and fifty pounds each or more, 2 cents per pound; fresh beef and veal, 3 cents per pound; tallow, one-half of 1 cent per pound; oleo oil and oleo stearin, 1 cent per pound.

PAR. 709. Butter, 8 cents per pound; oleomargarine and other butter substitutes, 8 cents per pound.

PAR. 715. Live animals, vertebrate and invertebrate, not specially provided for, 15 per centum ad valorem.

PAR. 716. Honey, 3 cents per pound.

PAR. 724. Corn or maize, including cracked corn, 15 cents per bushel of fifty-six pounds; corn grits, meal and flour, and similar products, 30 cents per one hundred pounds.

PAR. 729. Wheat, 30 cents per bushel of sixty pounds; wheat flour, semolina, crushed or cracked wheat, and similar wheat products not specially provided for, 78 cents per one hundred pounds.

PAR. 774. Acorns, and chicory and dandelion roots, crude,  $1\frac{1}{2}$  cents per pound; ground, or otherwise prepared, 3 cents per pound; all coffee substitutes and adulterants, and coffee essences, 3 cents per pound.

PAR. 777. Hay, \$4 per ton; straw, \$1 per ton.

## SCHEDULE 9.—COTTON MANUFACTURES

PAR. 903. Cotton cloth, not bleached, printed, dyed, colored, or woven-figured, containing yarns the average number of which does not exceed number 40, forty one-hundredths of 1 cent per average number per pound; exceeding number 40, 16 cents per pound and, in addition thereto, fifty-five one-hundredths of 1 cent per average number per pound for every number in excess of number 40: *Provided*, That none of the foregoing, when containing yarns the average number of which does not exceed number 80, shall pay less duty than 10 per centum ad valorem and, in addition thereto, for each number, one-fourth of 1 per centum ad valorem; nor when exceeding number 80, less than 30 per centum ad valorem.

PAR. 904. The term cotton cloth, or cloth, wherever used in this schedule, unless otherwise specially provided for, shall be held to include all woven fabrics of cotton, in the piece, whether figured, fancy, or plain, and shall not include any article, finished or unfinished, made from cotton cloth. In the ascertainment of the condition of the cloth or yarn upon which the duties imposed upon cotton cloth are made to depend, the entire fabric and all parts thereof shall be included. The average number of the yarn in cotton cloth herein

provided for shall be obtained by taking the length of the thread or yarn to be equal to the distance covered by it in the cloth in the condition as imported, except that all clipped threads shall be measured as if continuous; in counting the threads all ply yarns shall be separated into singles and the count taken of the total singles; the weight shall be taken after any excessive sizing is removed by boiling or other suitable process.

#### SCHEDULE 11.—WOOL AND MANUFACTURES OF

PAR. 1101. Wools, not improved by the admixture of merino or English blood, such as Donskoi, native Smyrna, native South American, Cordova, Valparaiso, and other wools of like character or description, and hair of the camel, in the grease, 12 cents per pound; washed, 18 cents per pound; scoured, 24 cents per pound.

PAR. 1102. Wools, not specially provided for, and hair of the Angora goat, Cashmere goat, alpaca, and other like animals, imported in the grease or washed, 31 cents per pound of clean content; imported in the scored state, 31 cents per pound; imported on the skin, 30 cents per pound of clean content.

PAR. 1103. If any bale or package containing wools, hairs, wool wastes, or wool waste material, subject to different rates of duty, be entered at any rate or rates lower than applicable, the highest rate applicable to any part shall apply to the entire contents of such bale or package.

PAR. 1120. Whenever in this title the word "wool" is used in connection with a manufactured article of which it is a component material, it shall be held to include wool or hair of the sheep, camel, Angora goat, Cashmere goat, alpaca, or other like animals, whether manufactured by the woolen, worsted, felt, or any other process.

#### SCHEDULE 14.—SUNDRIES

PAR. 1402. Boxing gloves, baseballs, footballs, tennis balls, golf balls, and all other balls, of whatever material composed, finished or unfinished, designed for use in physical exercise or in any indoor or outdoor game or sport, and all clubs, rackets, bats, or other equipment, such as is ordinarily used in conjunction therewith in exercise or play, all the foregoing, not specially provided for, 30 per centum ad valorem; ice and roller skates, and parts thereof, 20 per centum ad valorem.

PAR. 1444. Phonographs, gramophones, graphophones, and similar articles, and parts thereof, not specially provided for, 30 per

centum ad valorem; needles for phonographs, gramophones, graphophones, and similar articles, 45 per centum ad valorem.

PAR. 1449. Works of art, including paintings in oil or water colors, pastels, pen and ink drawings, and copies, replicas, or reproductions of any of the same; statuary, sculptures, or copies, replicas, or reproductions thereof; and etchings and engravings; all the foregoing, not specially provided for, 20 per centum ad valorem.

PAR. 1457. Waste, not specially provided for, 10 per centum ad valorem.

PAR. 1458. White bleached beeswax, 25 per centum ad valorem.

## TITLE II

### FREE LIST

#### SCHEDULE 15

PAR. 1501. Acids and acid anhydrides: Chromic acid, hydrofluoric acid, hydrochloric or muriatic acid, nitric acid, sulphuric acid or oil of vitriol, and mixtures of nitric and sulphuric acids, valerianic acid, and all anhydrides of the foregoing not specially provided for.

PAR. 1511. Arrowroot in its natural state and not manufactured.

PAR. 1512. Sulphide of arsenic.

PAR. 1513. Arsenious acid or white arsenic.

PAR. 1516. Waste bagging, and waste sugar sack cloth.

PAR. 1517. Bananas, green or ripe.

PAR. 1518. Barks, cinchona or other, from which quinine may be extracted.

PAR. 1519. Bells, broken, and bell metal, broken and fit only to be remanufactured.

PAR. 1530. Any society or institution incorporated or established solely for religious, philosophical, educational, scientific, or literary purposes, or for the encouragement of the fine arts, or any college, academy, school, or seminary of learning in the United States, or any State or public library, may import free of duty any book, map, music, engraving, photograph, etching, lithographic print, or chart, for its own use or for the encouragement of the fine arts, and not for sale, under such rules and regulations as the Secretary of the Treasury may prescribe.

PAR. 1593. Ice.

PAR. 1600. Joss stick or joss light.

PAR. 1601. Junk, old.

PAR. 1602. Kelp.

PAR. 1603. Kieserite.



- PAR. 1608. Leeches.  
PAR. 1614. Manuscripts, not specially provided for.  
PAR. 1622. Moss, seaweeds, and vegetable substances, crude or unmanufactured, not specially provided for.  
PAR. 1623. Needles, hand sewing or darning.  
PAR. 1627. Nux vomica.  
PAR. 1648. Pulu.  
PAR. 1660. Shingles.  
PAR. 1683. Teeth, natural or unmanufactured.  
PAR. 1689. Turtles.  
PAR. 1692. Wafers, not edible.  
PAR. 1697. All barbed wire, whether plain or galvanized.  
PAR. 1698. Witherite.

#### 158. Tariff-making without Method<sup>30</sup>

BY THOMAS WALKER PAGE

The preparation of the bill begins in the Committee on Ways and Means, which is the most powerful committee of the House of Representatives. The composition of this committee has little relation to the nature of its work. Places on it are eagerly sought and have to be awarded with caution. Unfortunately the members are not selected with a view to their special fitness for their duties, but, apparently, on the principle that in qualifications all members of the House are equal. The choice among them usually recognizes geographical and factional divisions in the House, but except for that restriction it is determined almost wholly by seniority of service. It is rare, therefore, that a member, when he first joins the committee, has the sort of knowledge and aptitude that the committee's work peculiarly requires. And as tariff revision has been seldom undertaken except as a result of a party change after an election, it has usually been made at the very time when the membership has the largest proportion of new men.

The organization as well as the composition of the committee is likewise controlled by seniority. The chairmanship is usually determined by length of service, and the division of work among the subcommittees goes more by seniority than by merit and industry. It can easily happen that the best men on the committee have little influence on its proceedings and that the work is really dominated by the more prejudiced and politically minded members.

Once revision has been begun, members of the committee have little or no opportunity to make up any handicap in knowledge or experi-

<sup>30</sup>Adapted from *Making the Tariff in the United States*, pp. 11-20. Copyright by McGraw-Hill Book Co., Inc., 1924.

ence. The information needed for fixing duties is sometimes available only in a form that the committee as composed cannot readily use, and sometimes it is not available at all. And even when it can be procured, other demands on the time of committee members distract their attention and divert their energies. When they venture to neglect the outside calls on their time, they do so at the risk of defeat in the next election. They can make insufficient use, therefore, of the materials relating to economic conditions that numerous agencies have already assembled.

No other government in the world has accumulated such a vast amount of trustworthy information about industry and commerce as the government of the United States, but to the average member of Congress its very volume and detail are appalling. Not many men either in or out of Congress are able to follow through an intricate investigation, interpret elaborate statistical tables, and draw sound independent conclusions from them. Such work requires special aptitude, training, and long practice. To most members, therefore, a bulky government report remains metaphorically as well as literally a closed book. Usually, it is true, there are a few men on the committee who can do work of this kind, but owing to lack of time they have to limit their attention to a small part of the task. When it is remembered that the tariff covers the whole field of industry and commerce, embracing many thousands of items, each of which demands individual attention; and when it is further remembered that public opinion and business stability require that the revision be completed within a few months, it becomes clear how hopeless it is for a committee member to find out what he needs to know by the ordinary methods of systematic study.

The committee resorts, therefore, to public hearings as the quickest and simplest means of getting information. But in the great multitude of matters to be heard little time can be devoted to any of them.

The men who testify at the hearings are frequently warned to be brief in their remarks. Their whole purpose is to use the time allotted to them so as to make the best case they can for the interest they represent. They are not sworn and are not required to tell the whole truth, but may limit themselves to such part of it as sustains their case. They are, indeed, liable to be cross-examined by members of the committee and admissions are sometimes drawn from them that throw light on the other side of the matter in hand. But the cross-examinations often degenerate into confused disputes filled with unsupported statements and expressions of suspicion, and frequently wander off into unimportant details. Many elaborate briefs are presented; and letters, affidavits, newspaper clippings, one-sided excerpts from offi-

cial and unofficial reports, and all sorts of extraneous materials are admitted. The whole undigested mass is finally printed, and the committee is thus furnished with many volumes of confused and contradictory evidence in which significant facts are apt to be obscured by irrelevant matter and positive denial. The tariff hearings before the Committee on Ways and Means preparatory to the existing law filled more than four thousand printed pages. No better way could be found to strengthen prejudice and stimulate misinformation and intrigue. When trustworthy information is lacking, other influences are free to sway the opinion of those who frame the bill.

After the hearings are finished the committee members of the majority party go for many weeks into executive session. Here an earnest effort is made, with the aid of clerks, statisticians, and selected advisers to draft a bill that will honestly and reasonably carry out their party's policy. But that policy is given different interpretations by the different members, who have been intentionally chosen to represent different sections and different party groups. Lacking exact information, and free to choose from the mass of conflicting testimony, each of them naturally gives first place to the views of his own constituents. It is only by a series of concessions and bargains, therefore, that it becomes possible to report out any bill at all.

The bill is voted on by the House under ironclad rules after being framed in committee with a view to conciliating enough diverging opinions to insure its passage. Few amendments on the floor are tolerated. Debate is brief and most of it is perfunctory. In the main the members have to accept on faith the views of their party representatives on the committee, for they have neither time nor means to form an independent judgment on so elaborate and technical a measure. Here and there on both sides a few recalcitrants break away from party lines, and there is no little grumbling and discontent even among the faithful. But in the end the bill is passed with negligible exceptions by a strict party vote.

Proceedings in the Senate duplicate in large measure those in the House. But in some respects conditions are different. So long as the bill is in the House Committee on Ways and Means the public is ignorant of its terms. But when that committee reports it to the House it is published, and the brief debate that follows, though it contributes little to the result, does direct attention to its salient features. By the time the bill reaches the Senate, therefore, every interest it affects is roused to more strenuous efforts, some to maintain what they have got, others to get more, and many to defeat provisions that they consider unfavorable. The press, now furnished with a distinct mark at which to direct its comments, devotes less

space to generalities and more to the specific provisions of the bill. Public discussion is diverted from broad tariff policies and fastens on significant particulars. Numerous adjustments are demanded by opposing sections and interests.

Open hearings are conducted by the Committee on Finance of the Senate, to which the bill is referred, in much the same way as by the Committee on Ways and Means, of the House. They seldom develop many new and helpful facts, but as feeling has grown more bitter the hearings are usually marked by greater arrogance among the claimants and resentment among the disappointed. Without exception the country has always appeared to receive a House tariff bill with disapproval. Protests come from some quarter against so many of its details as to give the impression that its enactment into law could not fail to oust the majority party from power.

Accordingly, when the majority members of the Finance Committee of the Senate go into executive session it is with a clear understanding that for party safety they must make the bill more widely acceptable. To do so usually involves many hundreds of amendments and sometimes so radically changes the bill as to make it recognizable only through its title and number. In most of the recent tariffs these amendments have commonly been in the nature of an increase of duties, either directly by raising rates or indirectly by changing classifications. This is done because high duties tend more than do low duties to conciliate those opponents who are most active.

The work does not progress far before the position of practically every Senator is known, and the committee is made aware of the particular provisions in which each is interested. It then becomes its task to arrange compromises in such a way as to secure a majority when it comes to a vote on the bill.

When the bill reaches the floor of the Senate it usually appears that agreement by majority of the committee does not mean that the bill will be accepted practically unchanged by the Senate, as is usually done, however disapprovingly, by the House. Debate is not cut short by the Senate rules; it is long and searching, and the committee must make more than a perfunctory defense of its proposals. Furthermore, sectional and factional influences are fully as strong and much more vocal in the Senate than in the House, and under the Senate rules insurgency is easier and more prevalent. In the main, the committee's recommendations are sustained, but amendments proposed on the floor by individual Senators are sometimes adopted that are quite inconsistent with the rest of the bill. In this way maladjustments and inequalities are apt to be further increased. On the other hand, the long debate occasionally shows up discrepancies in the committee's

proposals that the Senate sees fit to smooth away. All in all, however, when the vote is taken in the Senate on the bill as a whole, it usually shows less of logical arrangement and systematic adherence to a common standard and a definite policy than at any previous stage.

From the Senate the bill goes to conference in a committee composed of an equal number of members designated by each house. Meetings are held behind closed doors and sometimes continue for several weeks. Numerous concessions are made by both sides. Many of them are of minor significance, but some of them give to whole paragraphs and schedules a form quite different from that in which they were passed by either house. New information is seldom sought or offered. In deciding the points at issue less attention is given to their relation to the declared principles of the bill than to the impression that the action taken will make on the respective houses. Sometimes agreement is difficult and settlement is determined in large measure by endurance and bluff.

The bill reported back by the conference committee is almost invariably voted on as whole regardless of the changes made in it. Extremely seldom is it sent back to conference by either house for further adjustment; and although in its final form it is safe to say that no man in either house gives it unqualified approval, and that few even know just what it contains, yet it has never happened that a bill after getting through the stages described failed of passage by Congress.

### 159. Protection in Practice

#### a) *A Humble Request*<sup>31</sup>

*Resolved*, That the mutuality of the interests of the wool producers and wool manufacturers of the United States is established by the closest of commercial bonds, that of demand and supply, it having been demonstrated that the American grower supplies more than 70 per cent of all the wool consumed by American mills, and, with equal encouragement, would soon supply all which is properly adapted to production here; and further, it is confirmed by the experience of half a century that the periods of prosperity and depression in the two branches of the woolen industry have been identical in time and induced by the same general causes.

*Resolved*, That as the two branches of agricultural and manufacturing industry represented by the woolen interest involve largely the labor of the country, whose productiveness is the basis of national

<sup>31</sup>Resolutions of the National Wool Growers' Association and National Association of Wool Manufacturers, *Hearings of the Ways and Means Committee of the House of Representatives*, 60th Cong., 2d sess., House Document 143, p. 5331 (1909).

prosperity, sound policy requires such legislative action as shall place them on an equal footing, and give them equal encouragement and protection in competing with the accumulated capital and low wages of other countries.

*Resolved*, That the benefits of a truly national system, as applied to American industry, will be found in developing manufacturing and agricultural enterprise in all the States, thus furnishing markets at home for the products of both interests; and

*Resolved, further*, That it is the sense of this meeting that in the coming revision of the tariff the present duties both on wool and woolen goods be maintained without reduction.

b) *A Recipe for Securing Duties*<sup>32</sup>

Elsmere, April 4, 1897

Dear Mr. Whitman: Now about the tariff. I cannot, after what has been said to me in reference to my confidential relations with the committee, keep you posted as I would like to do. . . . Let me ask you a question. Should tops at a 24-cent line have the same compensatory duty as yarns at a 30-cent line? Should tops at a 24-cent line have a compensatory duty of 27½ cents? . . . . I do not want you to intimate to any Senator that I have written you on this subject. I am kept at work from 10 A. M. until midnight and I have not sufficient clerical assistance as yet. I am the only person whom the committee allows at its meetings.

Truly yours,

S. N. D. NORTH.

Boston, June 2, 1897.

My dear Mr. North: We all depend upon you to watch closely our interests, to see that nothing is overlooked or neglected by our friends on the committee. I have no doubt they will do all they can do, but with so many interests to look after, our special representative must see to it that our interests receive proper attention.

Yours very truly,

WILLIAM WHITMAN

c) *Tricks of Tariff-Making*<sup>33</sup>

A superficial comparison of two tariff bills gives very little clue to the differences between them. An accurate count of the number

<sup>32</sup>Adapted from *Hearings of the Ways and Means Committee*, *ibid.*, pp. 5492-93.

<sup>33</sup>The evidence presented in this reading is all taken from "The Tariff of 1909," by H. Parker Willis, in the *Journal of Political Economy*, XVII, 597-611.

of increases and decreases in the later, as compared with the earlier bill, throws no light upon the larger question of whether the revision was an upward or a downward revision. This method is important only because of its suggestion of a method for proving to superficial observers that there has been an upward or a downward revision. Real changes and their effects can be determined only by examining rates on particular commodities in view of a knowledge of all the conditions surrounding the production of these commodities. This can be well illustrated by reference to the tariff of 1909.

The statement has been repeatedly made that this tariff substantially reduced the level of duties. The conclusion is established by the arithmetical process of counting advances and reductions. It fails, however, to take into consideration the fact that most of the duties reduced were upon commodities which are produced in this country for export. In such cases tariff duties are purely nominal. They can in the very nature of things furnish no protection, because there is nothing to protect against. On the contrary the increases were upon goods which needed, or at any rate could profit by, advances. To take a few illustrations: In Schedule A the duties on most acids were cut, as well as upon ammonia, borax, and ether. On drugs, however, which were in position to profit, substantial advances were made. In Schedule B the rates were reduced on firebrick, marble, onyx, granite, and other non-portable articles. On pumice stone and certain grades of glass, duties, however, were raised. In Schedule C the reductions in nominal duties were very large, that on iron ore dropping from 40 to 15 cents.<sup>\*</sup> Yet upon the more expensive and finished metal products there were material advances. The best examples in the bill, however, are contained in Schedule G, dealing with agricultural products, of which we export very large surpluses. Neglecting the obvious facts of the grain trade, Congress tried to give the impression of great care for the farmer. Thus on broom corn, which had been free, a duty of \$3 a ton was imposed; the rate on buckwheat flour was raised from 20 to 25 per cent; on oats from 15 to 20 cents a bushel. Hops were advanced from 12 to 15 cents a pound. For some obscure reason the duty on cabbages was dropped from 3 to 2 cents. Nursery stock and fruits received a general raise. Congress, of course, did not overlook the opportunity for dealing the usual "blow at the beef trust" by reducing the duty which it did not need.

But many devices much more subtle than these found their way into the bill. Many changes were made in the unit of measurement for customs purposes. Electric lighting carbons, for instance, which had been 90 cents per hundred, were now made 65 cents per hundred feet on certain grades and 35 cents on other grades, the only kind

imported in practice being dutiable at the higher rate. A provision in the cotton schedule that in counting threads, upon the number of which the rate of duty depended, "all the warp and filling threads" should be included, operated practically to double the duties upon some classes of goods, in so much as, under the former method of counting, "double yarns," in which the thread is twisted together out of two or more yarns, had been counted as a single thread. The enormous concession made to the public by the reduction of the tariff on sugar by one-twentieth of a cent a pound, a reduction which could have no influence on price, was the mask for changing the method of weighing sugar, which in itself amounted to a substantial increase in duty.

These examples by no means cover the act. In fact it is doubtful whether all the tricks in the bill will ever be discovered. However, they are typical of the kinds of tricks that are incorporated in the American tariff bill.

#### 160. The Impossibility of Ascertaining Costs<sup>31</sup>

BY H. PARKER WILLIS

The case against the cost-of-production theory as a regulator of tariff duties may be summed up in a series of propositions somewhat as follows:

1. In practice the ascertainment of costs is impossible. No board of commission has the power to demand cost statements from manufacturers or producers; and if it had, it could not secure truthful statements. Moreover, there is no way of obtaining statements of any kind from foreigners.

2. Even if all manufacturers both here and abroad were willing to throw open their books in an absolutely honest and impartial way to an all-powerful commission, it would be of little service. This is because cost accounting is not generally practiced by producers and because, where it is practiced, there is no general agreement as to the treatment of different elements of cost.

3. If there were a perfect system of cost accounting installed upon a uniform basis in every plant manufacturing a given article throughout the world, knowledge of comparative costs would still be of little service, since costs in every country would have to be known before any conclusions could be arrived at as to what tariff rate was needed to protect a given country against the competition of others.

4. If all these facts were known for every country, the diffi-

<sup>31</sup>Adapted from an article in the *Journal of Political Economy*, XIX (1911), 374-76.



free iv jooty.' Undher th' Dingley Bill they were heavily taxed. Onless ye cud prove that they had cost ye less thin a hundred dollars, or that ye had worn thim f'r two years in Europe, or that ye were bringin' thim in f'r scientific purposes or to give a museem, there was an enormous jooty on teeth. Now ye don't have to hand a five to th' inspicitor an' whisper: 'I've got a few biscupids that I picked up abroad. Be a good fellow and let me through.' No sir, teeth are free.

"What other nicissities, says ye? Well, there's sea moss, newspapers, nuts and nux vomica. They've removed th' jooty on Pulu. I didn't think they'd go that far. Ye know what Pulu is, iv coorse, an' I'm sure ye'll be glad to know this refreshin' bev'rage or soap is on th' free list. An' cannary bur'rd seed is fhree. Lookin' down th' list I see that divvy-divvy is free also. But there are other items, mind ye. Here's some of them: Apatite, hog bristles, wurruks iv art more thinn twenty years old, kelp, marshmallows, life boats, silk worm eggs, stilts, skeletons, turtles, an' leeches. Th' new tariff bill puts these family commodityties within th' reach iv all. An' yes, opium is on th' free list. Th' tariff bill wouldn't be complete without that there item. But it ought to read: 'Opyum f'r smokin' while readin' th' tariff bill.' Ye can take this sterlin' piece of lithrachoor to a bunk with ye an' light a ball iv hop. Befure ye smoke up p'raps ye can't see where th' tariff has been rejoiced. But afther ye've had a long dhraw it all becomes clear to ye. Ye'er worries about th' children's shoes disappear an' ye see ye'ersilf floatin' over a purple sea, in ye're private yacht, lulled by th' *London Times*, surrounded be wurks iv art more thin twinty years old, atin' marshmallows an' canary bur-rd seed, while the turtles an' leeches frisk on th' binnacle.

"Well, sir, if nobody else has read th' debates on th' tariff bill, I have. Th' walls iv Congress has resounded with th' loftiest sintiments. Hinnery Cabin Lodge in accents that wud melt th' heart iv th' coldest manyfacthrer iv button shoes has pleaded f'r freedom f'r th' skins iv cows. I'm sorry this appeal wasn't succissful. Th' hide iv th' pauperized kine iv Europe will have to cough up at th' custom house before they can be convarted into brogans.<sup>86</sup> This pathriotic result was secured be th' gallant Sinitor fr'm Texas. He's an ardent free thrader, mind ye. He's almost a slave to th' principles iv th' Dimmycratic party. But he's no blamed bigot. He can have principles an' lave thim alone. An' I want to tell ye, me frind, that whin

<sup>86</sup>It is prosaic to spoil Mr. Dooley's figure by stating that he is wrong on this point. Hides were admitted free of duty by the Payne-Aldrich bill.

it comes to distributin' th' honors f'r this reform iv th' tariff, don't fail to throw a few flowers at th' ripräsentatives iv our small but gallant party. It was a fine thing to see thim standin' be th' battle cry if our grand old organization.

"Says th' Sinitor fr'm Louisyanny: 'Louisyanny, th' proudest jool in th' dyadim iv our fair land, remains thrue to th' honored teachin's iv our leaders. Th' protective tariff is an abomynation. It is crushin' out th' lives iv our people. Wan iv th' worst parts is th' tariff on lathes. Fellow sinitors, as long as one dthrop iv pathriotic blood surges through me heart, I will raise me voice again a tariff on lathes, onless,' he says, 'this dhread implyment iv oppressyon is akelly used,' he says, 'to protect th' bland an' beautiful molasses iv th' State iv me birth,' he says.

"'I am heartily in sympathy with th' sinitor fr'm Louisyanny,' says th' Sinitor fr'm Virginya. 'I loathe th' tariff. Fr'm me arliest days I was brought up to look on it with pizenous hathred. At many a convintion ye cud hear me whoopin' agin' it. But if there is such a lot iv this monsthrous iniquity passin' around, don't Virginya get none? Gentlemen, I do not ask, I demand rights f'r me common-wealth. I will talk here until July fourth, nineteen hundred an' eighty-two, agin' th' proposed hellish tax on feather beds onless somethin' is done f'r th' tamarack bark iv old Virginya.'

"A sinitor: 'What's it used f'r?'

"Th' sinitor fr'm Virginya: 'I do not quite know. It is ayther a cure f'r hives or enthers largely into th' mannyfacture iv carpet slippers. But there's a frind iv mine who makes it an' he needs th' money.'

"'Th' argymints iv th' Sinitor fr'm Virginya are onanswerable,' says Sinitor Aldhrich. 'Wud it be agreeable to me Dimnycratic colleague to put both feather beds an' his what-ye-call-it in th' same item?'

"'In such circumstances,' says th' Sinitor fr'm Virginya, 'I would be foored to waive me almost insane prejudice again' th' hellish docthrines iv th' distinguished Sinitor fr'm Rhode Island,' says he.

"An' so it goes, Hinnessy. Nivir a sordid wurrd, mind ye, but ivrything done on th' fine old principle iv give an' take."

"Well," says Mr. Hinnessy, "what difference does it make? Th' foreigner pays th' tax, anyhow."

"He does," said Mr. Dooley, "if he ain't turned back at Ellis Island."

## I. THE ARGUMENT FROM EXPERIENCE

162. Protection and Prosperity<sup>37</sup>

BY ROBERT ELLIS THOMPSON

The policy of protection is challenged now to justify itself by its works at the bar of public opinion. We are not afraid of that test. We ask your attention to its broad results.

It has raised the average of our national wealth from \$514 a head (slaves included) in 1850, to \$870 a head in 1880.

It has increased the value of our manufactures five hundred per cent, and that of our foreign commerce in the same ratio, while the commerce of England increased but three hundred and fifty per cent.

It has secured higher wages to our workmen and better prices to our farmers, without increasing to either the cost of staple manufactures, as is shown by comparing the prices of textiles and hardwares before and since 1860.

It has diversified our industries and raised our people out of that uniformity of occupation which is the mark of a low industrial development.

It has stimulated inventions and improvements to the degree that some of the great staples of necessary use have been permanently cheapened to the whole world.

It has drawn the different sections of the country into closer business relations, and has interlaced the great trunk lines of railroad to the West with others running southward.

It has brought the foreign artisan across the ocean, and has naturalized his craft on our shores, whereas free trade would have brought his work only.

It has made us as regards the great staples independent of all other countries in case of war, while it has consolidated the national unity and increased the national strength to a degree that makes the rest of mankind anxious to be at peace with us.

It has created a sentiment in favor of this policy so powerful that no political party ventures to oppose it openly, and such that the friends of free trade are hardly heard in our national campaigns.

<sup>37</sup>Adapted from *Protection to Home Industry* (1886), pp. 57-58. The student can easily find for himself a contemporary reading making practically the same argument.

163. Free Trade and Prosperity<sup>38</sup>**HOW WORKMEN'S WAGES HAVE GONE UP  
SINCE 1880**

The increase in wages in the chief industries throughout the United Kingdom in the last 20 years, according to the Third Fiscal Blue Book (p. 212), has been as follows:

Agriculture	- - - -	10 per cent
Building Trades	- - -	17 per cent
Coal Mining	- - -	52 per cent
Engineering	- - -	15 per cent
Textiles	- - - -	22 per cent

**FREE TRADE MEANS AN INCREASE IN YOUR WAGES****FREE TRADE GIVES US THE FOREIGNER'S JOB**

One of the most absurd posters issued by the Tariff Reformers was one in which a British workman was supposed to say: "*The Foreigner has got my job.*"

It is the Foreigner who provides jobs for British Workmen!

**FOR EVERY £1 OF MANUFACTURED GOODS IM-  
PORTED INTO THIS COUNTRY OVER £2  
WORTH ARE SENT ABROAD**

**THE WORLD BANKS IN BRITAIN**

**Under Free Trade Great Britain Is the Banking Center of the World**

The growth of British banking may be measured by the value of the business transacted during the last 40 years.

Here are the figures of the Bankers Clearing House Returns:

1869	- - - - -	£3,626,000,000
1879	- - - - -	4,886,000,000
1889	- - - - -	7,619,000,000
1899	- - - - -	9,150,000,000
1909	- - - - -	13,525,000,000

<sup>38</sup>Adapted from *Wages, Food Prices and Savings*, a pamphlet used by the Liberal party in the English Parliamentary campaign in 1909-10.

## FREE TRADE MEANS LARGER INCOMES

Great Britain's increasing prosperity under free trade is shown by the fact that the amount raised by the income tax has steadily increased.

In 1882 a tax of 1*d.* in the £ produced  
£1,915,000

In 1909 a tax of 1*d.* in the £ produced  
£2,784,000

More pounds were earned, and consequently more people were able to pay income tax in 1909 than in 1882.

Those who pay income tax have larger incomes than before.

## PROGRESS ON THE RAILWAY

### EXPRESS SPEED TO PROSPERITY

The growth of business under free trade can be seen by the increase in the traffic on our railways as shown by the following official figures :

#### PASSENGER TRAFFIC RECEIPTS

1880	- - - - -	£27,200,000
1890	- - - - -	34,300,000
1900	- - - - -	45,400,000
1909	- - - - -	51,200,000

#### GOODS TRAFFIC RECEIPTS

1880	- - - - -	£35,700,000
1890	- - - - -	42,200,000
1900	- - - - -	53,500,000
1909	- - - - -	59,500,000

THE NUMBER OF RAILWAY SERVANTS EMPLOYED HAS INCREASED 398,000 IN 1897 TO NEARLY 500,000 IN 1909

THE PROFITS OF RAILWAYS HAVE INCREASED FROM £38,000,000 IN 1895, TO £45,136,000 IN 1909

## J. TRADE AND THE PEACE OF THE WORLD

### 164. Protection and the National Defense<sup>39</sup>

Until a few months ago it was conventional to insist that even the partial free trade which has been attained in the Western World has caused the war-drum to throb no longer. The argument was rational, and since it was assumed, for some unknown reason, that man's

<sup>39</sup>An editorial (1915).

actions were rational, it was quite convincing. It ran something like this: The actions of nations, like those of individuals, are premised upon a desire to realize the highest measure of material welfare. States are, therefore, likely to do those things which lead to an increase in welfare, and to leave undone those things which seriously threaten it. Now commerce ties industrial countries together with bonds of common pecuniary interests. So close are these and so intricate is the scheme of pecuniary interests which is created, that anything which breaks the commercial nexus seriously threatens the profits and material welfare of capitalists and laborers alike in many industries in many countries. Because these relations are not of dependence, but rather of interdependence, nations cannot afford to fight. The antipathy to fighting is strengthened by the prominence of commercial opinion in determining national policy. On the contrary the gains from war are illusory. Increases in territory are nominal rather than real. They are attended by no great increase in material welfare. Indemnities do not repay their cost of collection. Loot is a breach of the ethics of warfare. Consequently the partial free trade of the present is an excellent investment in peace insurance.

Unfortunately, however, the events of the last few months have proved that the wisdom of nations does not reside in the rational calculations of ledgers. The pecuniary fact has as yet completely conquered neither the statesman nor the man in the street sufficiently to make economics the basis of national action. Instinct and impulse are still associated with rationality in political judgment. Race and creed and politics are still matters of concern. The pocketbook has not mastered hate, and the bank-ledger has not as yet won the victory over jealousy. Accordingly, the European conflict teaches quite clearly that, whatever may be rational, there is more than a possibility that a nation may find itself suddenly at war.

The supreme national duty, then, is to be ready for war. In this preparation the tariff policy is a matter of the greatest moment. Clearly, whatever may be our disadvantage, it will not do to depend upon a foreign source of supply for munitions of war. A navy alone may stand between us and that source. Should the fleet be defeated, there would be no chance for us to save ourselves. But only a moment's reflection is necessary to show that, even if we manufacture our own munitions, it is equally necessary that we produce the raw materials out of which they are to be made. The cutting off of a single essential raw material would prove fatal. To munitions must be added all that long list of articles which, under modern conditions, are essential to the successful conduct of the war. Soldiers, if they

are expected to win battles, must be properly fed, clothed, and housed. We can depend upon the caprice of import for no article essential to their personal efficiency. We must also have many auxiliary articles and devices upon which the success of the force as a fighting unit depends. These include horses, automobiles, gasoline, copper, steel, drugs, chemicals, and innumerable other things. Our transportation system, too, must be prepared to meet military exigencies. In short, war practically involves, as it is carried on under the modern machine process, making the whole industrial system function toward military efficiency. War comes unexpectedly. An industry, on the contrary, cannot be quickly started. Time and experimentation are necessary to make it fit into a complicated industrial scheme. Consequently industries which supply every essential article required in war must be built up to high efficiency in time of peace. At best we can expect only a few industries to be built up in just the right way in response to the capricious demand of pecuniary profit. A use, and a very extensive use of protection is, therefore, necessary to prepare a nation for the acute stress that may mean life or death.

#### 165. The Future of Trade and Peace<sup>40</sup>

BY J. RUSSEL SMITH

The pictured world of almost countless comfortable millions, with plenty of goods, developing trade, education, the arts, and the great art of living, can only inhabit the earth if we can banish from it permanently several conspicuous characters of history—Captain Kidd, Alexander, Cæsar, Tamerlane, the Kaiser. Those accursed twins, the pirate and the conqueror, one using government as a sham, the other boldly flouting it, are the archenemies of world-peace. History, if we take the record of the race in perspective, is a sad chronicle of almost unending marauding conquest. Civilizations have risen only to fall before the smashing blow of some vigorous band of rovers. Organized society only arises in spots easy of protection and survives for a time until attack from the outside becomes stronger than defense from within.

The world is one. It is one in trade; it must also become one in government. The most serious question just at present facing the human race is this: whose government shall it be? Shall we have a recurrence of world-empire, world-dominion, world-obedience, world-tribute, world-submission, or shall we have a democracy of peoples, each free to develop its bit of the earth, to perfect its own way of doing things, to trade with its neighbors, to live as do the

<sup>40</sup>Adapted from *Influence of the Great War upon Shipping*, pp. 342-50. Copyright by the Carnegie Endowment for International Peace, 1919.

citizens of any other well-ordered community—tending their gardens, training their children, buying and selling, coming and going obedient to no one, or to no class, but obedient to the will of all?

Our thinking must grow up. We have developed world-trade, world-investment, world-enterprise. Enterprise must not run loose and uncontrolled because it is bigger than man's mind, or rather bigger than man's habit of thinking. We have been trying to run twentieth-century business with seventeenth-century thinking. Our mental concepts, our mental content, our mental habits are of an age long past. We can make a scientific machine in five years and put it to work, but it is a slow job to readjust society to it. We must develop world-thinking and world-government to match world-enterprise, or suffer. Just as the thirteen states relinquished the possibility of exploiting each other through war, tariff, trade, and financial disagreement, so the nations of the world, if they would keep the peace, must stop the exploitation of one regional group of people by another.

To make this world-organization survive several conditions are necessary. First, all must have access to the sea. There must be no more question about the right of a people to have free access to the sea than there is about the right of a man to have free access to the public street or road. Second, we must reduce the temptations to war. War arises out of two desires; one the lust of dominion, and the other the desire for special privilege upon the face of the earth. Especially dangerous is the white man's desire to keep his land white and to exclude the yellow man and the black man. This exclusion rests on force; yet it is one of the things we hold most dear. If we will insist upon it, as perhaps we shall, we must mitigate it as far as possible by the abolition of tariffs. The free exchange of commodities will do much to share the advantages of exclusive possession of territory and reduce the need which yellow men of densely peopled lands feel for the empty lands of the white man.

International trade policy thus becomes one of the great cares of those who reorganize the world for peace. Tariffs are the chief factor in trade policy. Fortunately, of the two reasons for tariffs recognized by economists, one is passing by a process of legislation and the other will be gradually and automatically removed in exact proportion to the strength of a league to enforce peace. These two reasons for the tariff are (1) the necessity of starting infant industries and (2) industrial completeness necessary for war. As to the first, if the tariff policy aims merely at a protection of infant industries during the period of infancy, it should be the cause of no friction.



The second argument for tariffs is the more potent one. There is almost no limit to its application now that war has become so industrial. Along with this idea we should never lose sight of the fact that all economists recognize in the tariff a factor increasing the cost of living in the country possessing it. The tariff, except as a starter of new industries, tends to impoverish; conversely, free trade tends to enrich by giving the importing country the advantage of the specialization that may be developed in all other countries.

At the present moment the pains and perils of the Great War have served to emphasize the importance of tariffs as factors aiding the industrial completeness necessary to national defense. We have, however, already passed the point of the possibility of this as a general policy for the nations of the world. We have developed population and trade too far; industry and war have become too complex for any nation to hope to be commercially independent, even if its variety of resources is as great as that of this country. Everyone knows that England and Holland, France and Norway are dependent upon the sea; but so also is the United States. Our steel industry, with its whole great class of war supplies, can be ruined by cutting off imported ores used in hardening steel.

Tariffs cannot make us, even in the United States, independent in war, although if deliberately used for that purpose they could make us nearly independent, but at a great cost through high living expenses and inefficient industry.

Every year science is making military completeness less possible, attack more deadly, and isolation more impossible. The past is gone, along with it isolation is also gone. The world has given hostage to peace. Our century of world-trade has already developed the degree of independence of nations and dependence on the sea and ships, whereby we are compelled to maintain this commerce or lapse back to a past epoch of small population or obedience to some tyrant. We must unite in world-organization with a free sea permitting world-trade, or start into an epoch of militarism with the menace of being united by some world-conqueror taking a rich world-tribute.

We cannot hope to remove from man the lust of world-dominion, but we can do much to remove from it an admixture of the desire for land and the desire for trade privilege. We cannot hope to remove land hunger, but we can gradually dull the appetite by establishing freedom of trade, which will still leave peoples free to develop their own special conditions. By this mitigation of desire we have some chance of organizing the world so that it may be able to suppress the lust of dominion and this modified land hunger.

166. The Cult of National Self-Sufficiency<sup>41</sup>

BY EDWIN CANNAN

The cult of national self-sufficiency is incompatible with peace, since it must inevitably render warfare perpetual by making it necessary for each nation to grab territory which contains the source of some product which it has not got in its existing territory and which it must have in order to be self-sufficient. We have seen a little of this already; it would be more and more serious, the more intense the worship of self-sufficiency. Supposing the bigger empires managed to settle down to an uneasy peace, what would become of the smaller countries? What is to become of Denmark, Sweden, Portugal, when the big countries reached a high degree of self-sufficiency and would not deal with them? They must join the bigger countries, and soon there would be only two or three great powers in the world which, after a second or third Armageddon, would be reduced to one by some struggle for the source of some indispensable article.

Such arguments may seem telling enough in the countries which are too small to allow the lust of power to flourish. But in the greater empires they are likely to fall on deaf ears so long as the present state of sentiment prevails. In each of these people will be found to believe that their own country is the best situated for the struggle. In the large scattered empire of which the parts are separated by long distances over sea, people think they can best be independent of outside supplies because their dominions extend into every zone of temperature and include every kind of soil. In the smaller but compact empire the weaknesses of the larger but more scattered one—its liability to succumb to submarine attack for example—are clearly perceived, and it is hoped that the more compact area will win through with the aid afforded by science in providing substitutes for imported products. So long as the question is considered from a purely national point of view, and so long as patriotism is confounded with contempt and hatred of other nations, we may doubt if argument directed to show the suicidal character of the gospel of self-sufficiency will have much effect in the greater countries. When two men desirous of killing each other are locked together in the water, it is not much use to tell them to let go if each thinks the other will drown first.

<sup>41</sup>Adapted from *The Influence of the War on Commercial Policy*, pp. 44-45, "Reorganization of Industry Series," III. Published by the Council of Ruskin College, London, 1917.

## VII

### THE PROBLEM OF RAILWAY REGULATION

In a machine system continental in extent and embracing a varied host of correlated industrial activities the railroad occupies a position of strategic importance. Through it the vast and intricate gear of "the industrial machine" is made to "engage." Its rates, by influencing costs and prices, perform important services in the organization and direction of industry. It is inevitable, therefore, that we should have "a railroad problem" which three considerations impel the public to keep alive. First, the railroad is an industrial unit of large size; and in a country steeped in the conventions of competition, the giant is always under suspicion. Second, the business tends to be monopolistic; and to monopoly the public imputes not only horns and forked tail, but a capacious maw as well. Third, it is an instrument possessed of great powers of industrial control; for through its "manipulation" of rates it can cause industry to flourish or fade; it can give to industrial development a "natural" or an untoward direction. These considerations have caused the problem to wear a constant freshness which comes from its varied and never-ending sequel.

When "railroads were new" our people were thoroughly imbued with individualism. Firmly convinced were they that one should have what he earned, and that he earned "what he got." They were satisfied that in competition the public possessed an adequate safeguard. They did not hesitate to pronounce "regulation" "meddlesome interference" and to characterize the almost unthinkable proposal of government ownership as "socialistic." But they had no adequate conception of the nature of the railroad industry. They did not see that railway economy requires monopoly; that the proper performance of its services requires the business to be endowed with public powers; that costs of particular services cannot be isolated to do duty as bases for particular rates; and that "normally the industry is in a stage of increasing returns."

These economic characteristics of the industry, quite in opposition to popular theory, have determined our policy in dealing with it. We have found that attempts to fix rates by competition have resulted in alternate periods of high and low charges, in fluctuating dividends and prices of securities, in speculation and "railroad wrecking," in unpredictable items of future cost, introducing elements of grave risk into every business enterprise. We have been confronted with abundant testimony of discriminations in favor of large shippers and particular localities; and have concluded that "unreasonable rates" were interfering with the "natural" course of development and were favoring monopoly. And more than once we have suspected that, because of its peculiar position, the railroad was inclined to charge too much. These observations we have translated into problems, which through the state, we have tried to solve.

A protracted and unpleasant experience has convinced us, slowly to be sure, that the problem cannot be solved in terms of competition. We have never been quite willing formally to renounce so efficacious an instrument of salvation; but, unconventionally at any rate, we have little by little quit trying to make the railroads compete.

Primarily, perhaps, because discrimination appeals to us as unjust, we have given our attention to the problem of preventing interference with the "natural" course of development. This problem is still in process of solu-

tion. The outlawing of rebates has brought forth an almost infinite variety of ingenious substitutes. As these have been relegated to outer darkness their places have been taken by others. After many years of strenuous effort open rebates are largely matters of history. But, if discrimination be widely interpreted, we have not as yet succeeded in ridding ourselves of this evil. At present, many discriminations are concealed both in differences in service and in the rate-structure. We are realizing this, and the recent transportation act grants enlarged powers the end of whose exercise may well be standardized service. In addition, enlarged authority over rates and the tenor of recent decisions are imparting a semblance of system to a very disorderly rate-structure.

The problem of the railroad as a monopoly is also "in solution." The grant to the Interstate Commerce Commission of authority to set aside particular rates soon grew into the power to prescribe whole schedules of rates. With this process has come many new "problems." To prescribe "reasonable rates," the Commission has had to know costs. To determine these, it has been compelled, with the assent of Congress, to prescribe uniform accounting systems. The problem has further involved a determination "of what the investment would bear." This has necessitated an evaluation of the railroad properties of the country, an undertaking that will not be completed for many years. The intention, underlying this appraisal, is to limit profits, by a limitation of rates, to a reasonable return. To this end the recent act provides for the "recapture" by the government of one-half the earnings in excess of a reasonable return upon the value of the property. The problem of restricting "strong" roads to reasonable rates and keeping weak roads alive has led to tentative steps, both in legislation and by the commission, to the grouping of the railroads of the country into a number of competing systems. Together these things are indications of the development of a policy of limiting railroad dividends to a "fair figure" and of guaranteeing this modest income.

These implications of legislation, of administration, of direct control, of industrial policy deserves more than passing notice. Our devotion to individualism is still strong; our faith in the efficacy of competition, even if shaken a bit, is still firm; we still refuse to discuss government ownership as a practical question. But despite all this, we have created a system of government regulation which involves supervising accounts, evaluating property, fixing rates, and standardizing service; which threatens supervision of expenditures and investments; and which tends to limit the railroad to a definite guaranteed return on its investment. Control is very rapidly passing into the hands of the state. The step to the formal assumption of management by the state may be a tedious, but it is logically a short one. At present we face the alternative of direct public control or private control under greater public supervision than has been exercised before. Because of an impression that government management during the war was less successful than it might have been, the public is likely, formally at least, to prefer the latter. But increased supervision, guaranteed returns, limitation of earnings, and aggregation of properties into larger units gives a decided bent toward some form of public control. Eventually the transition to a new form of control can be effected by a simple substitution of government bonds for the waning percentage of privately owned railroad securities. Are we destined to take it? If we do, will it be a simple matter of conscious choice? Or will it be a solution that has been forced upon us unwittingly through our attempt to solve isolated railroad problems one at a time?

Before it has come about that one "railroad problem" after another has been "solved," only to leave a bigger and more difficult problem in its place. The question of government ownership is more intricate than any of its predecessors. If the state does take over the roads, what will be the net gain? Will we be better off than we now are? Will we be better off than we would have been had we never embarked on a course of regulation? If our railroads are socialized, what is the effect likely to be in the solution of our other problems, for instance that of monopoly? What influence is such a step likely to

exert upon our theory of the relation of the state to industry and upon our fundamental "principles" and "concepts"? Are we thus for the last time dealing with the railroad problem in isolation, or is it likely to continue with us in ever-varied forms? Is government ownership a mere means of merging a particular problem in the larger problem of the socialization of industry? After government ownership—what?

### A. THE BASIS OF THE PROBLEM

#### 167. The Dual Nature of the Railway Corporation<sup>1</sup>

We are all familiar with the easygoing classification of business enterprises into public and private. There is something quite satisfying about the ready way in which this antithesis permits one to call the corner grocery a private business and the mail service a public enterprise. Since the two classes are all-comprehensive and mutually exclusive, it is quite unfortunate that their author was not possessed of the supreme pre-wisdom to make provision for the railway which in course of time was to appear, reach gigantic proportions, work itself into the whole fabric of the industrial system, and spoil a very serviceable antithesis. For the railway can be properly called neither a private nor a public enterprise; it partakes of the nature of both.

That it is a private enterprise is the more evident. You know that trains are run by a private corporation; that the corporation sells you a ticket, thereby making a contract with you, to transport you from New York to Philadelphia; that when Hiram Rankin's cow is run over, he brings suit against the New York Central & Hudson River Railroad Company; and that your next-door neighbor, James Street, regularly receives what he calls a dividend on the three shares of preferred stock which he owns in the Pennsylvania. So far as its actual business is concerned, it appears to you that a railway company is much like any other corporation.

But if you will study a moment, you will see just as clearly that the business is of a public nature. You remember your grandfather telling you how, when he was a member of the state legislature back in the forties, he helped put through a bill which appropriated state money to help the K. & W. build a line through your part of the state. You never heard of the state helping Simpkins, the corner grocer, in that way. You remember, too, just a few years ago, that when the L. R. & Q. was running the spur out to Dalton, Rufus Lunsford would not sell the narrow strip of land through his farm, which the company wanted to make a part of their right of way. You remember that he said that he was just

<sup>1</sup>An editorial (1915).

as much entitled to that land as any private corporation was entitled to its property; and that no private corporation should get a foot of ground belonging to him. Yet you remember how it turned out—that there was a trial; that the lawyers representing the railway said that the company has been clothed with the right of “eminent domain,” and that this gave them the right to take Lunsford’s property, if they needed it, to complete their line, provided they paid him full compensation for it. You know, too, that the railway has no right to refuse to handle your freight, if you offer it to them and if you comply with all the conditions. Perhaps you do not know that when the railway first came, it was thought of as a “rail” way, as a public highway upon which each man should be allowed to run his own cars, just as he drove his own carriage or wagon along the thoroughfare. Of course you see that technical difficulties prevented this from being done and led to a single corporation being granted an exclusive right to run trains over the road. But, in making the grant the state was merely meeting the peculiar situation. It was not surrendering all of its rights to the private corporation. Thus you see that the railway corporation is of a public as well as of a private nature.

#### 168. The Economic Basis of Regulation<sup>2</sup>

BY I. LEO SHARFMAN

The need of a system of governmental control arises from the economic characteristics of the railway. Most of the important questions involved in the so-called railroad problem can be traced to the economic character of the railway business. It is necessary therefore, to indicate the general nature of those economic particulars and their most striking consequences.

*The monopolistic character of the railway business.*—The need of regulation depends chiefly upon the monopolistic character of the railway business. In ordinary industrial enterprises the existence of competition, when free and unrestricted by artificial means, provides an automatic force for the protection of the public. High prices and large profits in a given industry tend to attract additional capital to that industry, which results, in the long run, in a readjustment of charges and a reduction of net returns. In like manner, inefficient service and goods of inferior quality cannot permanently be imposed upon the public because a policy which is clearly detrimental to the interests of the consumer cannot permanently withstand the force of competition. The railway business, on the other

<sup>2</sup>Adapted from an unpublished volume entitled *Railway Regulation*, 1913.

hand, tends to be operated under monopolistic conditions. To some extent railways are entirely exempt from the operation of competition. The amount of capital necessary for the construction of a railway is so large and the task of railway building is so substantial that competition is always relatively slow in becoming active. Capitalists will not unite so promptly in building a parallel road because of the large sums that must be risked in the enterprise; and even when they decide to enter upon such an undertaking, the work of construction requires so much time that the appearance of active competition is still further delayed. Moreover, even when the parallel road is built, it actually competes with the original line only at certain points, usually the more important cities, while at intermediate points the lines separate and pass through numerous small communities which have no other railway facilities. At these non-competing points, then, the railways usually enjoy a monopoly of local traffic; and while the number of non-competing points is gradually being reduced by the construction of new steam roads and the multiplication of electric railway lines, doubtless, because of the very nature of the railway, there will always be many localities which, in the absence of government control, will be at the mercy of one transportation agency. In part, therefore, the railway business is clearly monopolistic in character.

*The nature of railway competition.*—But the railway business tends to be carried on under monopolistic conditions even when competition does exist, because of the character of railway competition. Railway rivalry tends to be abnormally keen and competition ruinous. This, in turn, leads to coöperation in various forms, and the inevitable result follows that railway competition becomes self-destructive. Competing railway companies, weary of the keen struggle which invariably ensues when competition becomes active, either assent to a truce whereby competition between them is abolished and an agreement is reached for the maintenance of rates, or they continue their warfare until one of the roads is driven to insolvency, and the unsuccessful line, upon reorganization, is taken over by its victorious rival. In either case effective competition is destroyed and monopoly conditions are established. The basis of this ruinous competition is to be found in two fundamental economic characteristics of the railway business:

*Joint cost and railway management.*—The services of a railway are rendered to a very large degree at joint cost. From one-half to three-quarters of a railway's expenditures must be incurred regardless of the performance of any particular service. In order to conduct transportation at all, a roadbed must be provided, tracks

must be laid, terminals must be built. This plant is equally necessary for the transportation of passengers and freight, and express and mail matter. Moreover, it is equally necessary for the transportation of different classes of passengers and different kinds of freight. The expenditures for the fundamental purpose of providing the plant of a railway enterprise create the fixed charges of the business: and these fixed charges, the interest on the capital invested in the construction of the railway, form a part of the cost of every service rendered by that railway. As far as expenditures for plant are concerned, all railway operations are conducted at joint cost. But even the operating expenses are largely joint. The roadbed and equipment must be maintained in a state of reasonable repair and efficiency, and many of the employees and much of the material necessary for conducting transportation must be provided and most of the general administrative expenses must be met, regardless of the amount or the kind of traffic carried by the railway. In other words, a substantial proportion of the operating expenses, like the fixed charges, are constant. It is practically impossible, therefore, for the railway manager to ascertain the exact cost of a given service. Rate making must necessarily involve a large degree of guesswork, though it is true that this guesswork is entrusted to experts. Railway officials have no means of determining with certainty that rates have been reduced to unprofitable limits. Under the stress of keen competition, then, conditions are decidedly favorable to ruinous rate-cutting: and cutthroat competition invariably becomes self-destructive.

*Increasing returns and railway policy.*—Railway operations are so largely conducted at joint cost because a very large proportion of railway expenditures are fixed or constant. If a railway is built and equipped and is carrying a given amount of traffic, it can usually handle a vastly increased quantity of business at a relatively slight additional expense. Within very wide limits, a given plant and equipment will accommodate a large as well as a small amount of traffic, and the only additional cost involved in handling an increase in traffic will consist in that portion of the operating expenses which varies with the amount and kind of service rendered. In other words, the expenditures of a railway company do not keep pace with the services which it performs; an increase in traffic does not involve a proportionate increase in railway expenditures. It follows, then, that with each increase in the amount of traffic carried, the cost per unit decreases; and the net revenues of a railway increase faster than the growth of its traffic. The railway business is subject



to the law of increasing returns: every increase in traffic results in more than a proportionate increase in profits. Railway traffic managers, therefore, work under a powerful incentive to increase the volume of their business, and the competition for traffic is intense. In fact, the passion for traffic becomes the controlling passion of the railway business. Traffic managers consider it their most urgent duty to get business—to get it at the highest rates possible, but in any event to get it. The profitable limit of rate reduction is so uncertain, because railway expenditures are largely joint, and the advantage of extensive traffic is so great, because railway expenditures are largely constant, that there is a natural and compelling tendency on the part of railway officials to reduce rates to whatever point may be necessary in order to attract business from competing lines. Ruinous rate wars follow and competition tends to destroy itself. These conditions lie at the basis of the abnormal character of railway competition which almost invariably leads to railway operation under monopolistic conditions.

*Railway competition and discriminatory practices.*—The keen rivalry for business leads not merely to rate wars and general rate cuttings, but to discriminatory practices as well. The passion for business is so intense that the traffic manager will resort to any means in order to get it. If the amount of railway traffic can be extended and hence the size of railway profits disproportionately increased by means of granting special privileges in the transportation of one commodity as compared with another, or in the case of one person or locality as compared with competing shippers or markets, railway officials will not hesitate long to resort to these discriminatory practices. The history of American railways, and of our monopolistic industrial combinations or so-called trusts, divulges no greater evil than the granting of railway discriminations in rates and service for the benefit of one person, locality, or kind of traffic, to the prejudice and disadvantage of rival shippers, places, and industries. The motive or stimulus for these practices lies in the keen desire for additional business, with its disproportionate increase in railway profits. Discrimination has been one of the most baneful as well as one of the most certain effects of railway competition.

*Railway discrimination and the public welfare.*—The danger as well as the injustice of discriminatory practices cannot be over-emphasized. If our industrial life is to reach its natural and most efficient economic development, there must be freedom of enterprise and fairness of treatment for all persons, all sections, and all

undertakings. In a sense, transportation is a fundamental industry, underlying all others; for it is essential to the conduct of all business and goes far towards determining the direction and conditions of industrial activity. The item of transportation, whatever it may be, is one of the elements in all costs, and the outcome of competition between different producers may be largely affected by any divergence in railway rates which must be paid by each of two or more competitors. It follows clearly, then, that the railway officials who make transportation rates exercise a tremendous power. By the soundness of their adjustment of rates and by the degree of fairness with which established rates are observed, the railways may profoundly affect—or absolutely determine even—the prosperity of individuals, of industries, of cities and towns, or of entire sections of the country. By discriminating between competing shippers, they may destroy the business of one and build up that of another, making one man rich and another poor. By stimulating or discouraging a particular class of traffic they may increase or diminish the importance of industries and the extent of production of particular articles of commerce, shaping the direction of industrial activity. By discriminating among cities and towns, they may cause one to grow and another to decay, determining the commercial importance of business centers. By modifying their rate schedules in special instances, they may determine the location of industries, guiding the movements of population and affecting the prosperity and welfare of extensive localities. By these unfair practices the railways also have it within their power to build up industrial monopoly; and the most powerful of the trusts against which the people are now struggling made their first advances towards control of the market through the agency of special favors in the form of railway discriminations.

### 169. The Futility of Railway Competition<sup>3</sup>

BY ARTHUR T. HADLEY

We have been taught to regard competition as a natural, if not necessary, condition of all healthful business life. We accept, almost without reserve, the theory that, under open competition, the value of different goods will tend to be proportional to their cost of production. According to this idea, if the supply of a particular kind of goods is short, and the price comes to exceed cost of production, outside capital will be attracted into the business until the supply is sufficiently increased to meet the wants of the market. But as

<sup>3</sup>Adapted from *Railroad Transportation: Its History and Its Laws*, pp. 69-74. Copyright by G. P. Putnam's Sons, 1885.

soon as this point is passed, and the price begins to fall below the cost of production, people will refuse to produce at a disadvantage, the supply will be lessened, and the price will rise to its normal figure. If all this be true, competition furnishes a natural regulator of prices, with which it is wicked to interfere.

This may once have been true, but it is not true today, that people find it to their interest to refuse to produce, if price drops below cost. To stop producing often involves the greater loss.

Let us take an example from the railway business. A railroad connects two places not far apart, and carries from one to the other 100,000 tons of freight a month at 25 cents a ton. Of the \$25,000 thus earned, \$10,000 is paid out for the actual expense of running the train and loading and unloading the cars; \$5,000 for repairs and general expenses; the remaining \$10,000 pays the interest on the cost of construction. Only the first of these items varies in proportion to the amount of business done; the interest is a fixed charge, and repairs have to be made with almost equal rapidity, whether the material wears out, rusts out, or washes out. Now suppose a parallel line is built, and in order to secure some of the business offers to take it at 20 cents a ton. The old road must meet the reduction in order not to lose its business, even though the new figure does not leave it a fair profit on the investment; better a moderate profit than none at all. The new road reduces to 15 cents; so does the old road. A 15-cent rate will not pay interest unless there are new business conditions developed by it; but it will pay for repairs which otherwise would be a dead loss. The new road makes still further reduction to 11 cents. This is better than nothing. If you take 11 cents freight that costs you 25 cents to handle, you lose 14 cents on every ton you carry. If you refuse to take it at that rate, you lose 15 cents on every ton you do not carry. For your charges for interest and repairs run on, while the other road gets the business.

Under competition such cases are of constant occurrence, and almost as a matter of course when one of the roads is bankrupt. "Business at any price rather than no business at all" is the motto of such a road. It has long ceased to pay interest; it can pay for repairs by receiver's certificates; and it will take freight at almost any price that will pay for the men to load the goods and the coal to burn in the engine. And it is to be observed that when a competing road does not carry the war to this point, it is not a competitive rate. They may agree on a 25-cent rate, thinking it will be a reasonable and paying one; but such a rate is actually determined by combination, even though they take cost of service into account.

The theory that when payment falls below cost active competition will cease fails. This is because far below the point where it pays to do your own business it pays to steal business from another man. This influx of new capital will cease; but the fight will go on, either until the old investment and machinery are worn out, or until a pool of some sort is arranged. This is not confined to the railway business. Wherever there are large permanent investments of capital we see the same cause at work in the same way.

There is a marked difference between mercantile competition, such as was considered by those who established the old law of competition, and the competition of railroads or factories, such as we have been considering. In the former case its action is prompt and healthful, and does not go to extremes. If Grocer A sells goods below cost, Grocer B need not follow him, but simply stop selling for a time. For (1) This involves no great present loss to B. When his receipts stop, most of his expenses also stop. (2) It does involve present loss to A. If he is selling below cost, he loses more money, the more business he does. (3) It cannot continue indefinitely. If A returns to paying prices, B can again compete. If A continues to do business at a loss he will become bankrupt, and B will find the field clear again.

But if Railroad A reduces charges on competitive business, Railroad B must follow. (1) It involves a great present loss to stop. If a railroad's business shrinks to almost nothing, a large part of its expenses run on just the same. Interest charges accumulate; office expenses cannot be suddenly contracted; repairs do not stop when traffic sinks; for they are rendered necessary by weather as well as by wear. (2) If B abandons the business, A's reductions of rates will prove no loss. The expense of a large business is proportionately less than that of a small one. A rate which was below cost on 100,000 tons may be a paying one on 200,000. (3) Profitable or not, A's competition may be kept up indefinitely. The property may go into bankruptcy, but the railroad stays where it is. It only becomes a more reckless and irresponsible competitor.

The competition of different stores finds a natural limit. It brings rates down near to cost of service, and then stops. The competition of railroads or factories finds no such natural limit. Wherever there is a large permanent investment, and large fixed charges, competition brings rates down below cost of service. The competitive business gives no money to pay interest or repairs. Sometimes the money to pay for these things comes out of the pockets of other customers, who do not enjoy the benefit of the competition, and are charged much higher rates. Then we have the worst forms of dis-

crimination. Sometimes the money cannot be obtained from any customers at all. Then we have bankruptcy, ruin to the investor, and—when these things happen on a large scale—a commercial crisis.

## B. ASPECTS OF RATE-MAKING

### 170. Freight Classification<sup>4</sup>

BY WILLIAM Z. RIPLEY

Imagine the *Encyclopaedia Britannica*, a Chicago mail-order catalogue, and a United States protective tariff law blended in a single volume, and you have a freight classification as it exists in the United States at the present time. Such a classification is, first of all, a list of every possible commodity which may move by rail, from Academy or Artist's Board and Accoutrements to Xylophones and Zylonite. In this list one finds Algarovilla, Bagasse, "Pie Crust, Prepared"; Artificial Hams, Cattle Tails and Wombat Skins; Wings, Crutches, Cradles, Baby Jumpers and all; together with Shoo Flies and Grave Vaults. Everything above, on, or under the earth will be found listed in such a volume. To grade justly all these commodities is obviously a task of the utmost nicety. A few of the delicate questions which have puzzled the Interstate Commerce Commission may give some idea of the complexity of the problem. Shall cow peas pay freight as "vegetables, N. O. S., dried or evaporated," or as "fertilizer"—being an active agent in soil regeneration? Are "iron-handled bristle shoe-blackening daubers" machinery or toilet appliances? Are patent medicines distinguishable, for purposes of transportation, from other alcoholic beverages used as tonics? What is the difference, as regards rail carriage, between a percolator and an everyday coffee pot? Are Grandpa's Wonder Soap and Pearline to be put in different classes, according to their uses or their market price? When is a boiler not a boiler? If it be used for heating purposes rather than steam generation, why is it not a stove? What is the difference between raisins and other dried fruits?

The classification of all these articles is a factor of primary importance in the making of freight rates both from a public and private point of view. Its public importance has not been fully appreciated until recently as affecting the general level of railway charges. So little was its significance understood, that supervision and control of classification were not apparently contemplated by the original Act to Regulate Commerce of 1887. The anomaly ex-

<sup>4</sup>Adapted from *Railroads, Rates and Regulations*, pp. 297-304. Copyright by Longmans, Green & Co., 1912.

isted for many years of a grant of power intended to regulate freight rates, which, at the same time, omitted provision for control over a fundamentally important element in their make-up. Control over it has now been assured beyond possibility of dispute.

The freight rate upon a particular commodity between any given points is compounded of two separate and distinct factors: one having to do with the nature of the haul, the other with the nature of the goods themselves. Two distinct publications must be consulted in order to determine the actual charge. Although both of them usually bear the name of the railway and are issued over its signature, they emanate, nevertheless, from entirely different sources. The first of these is known as the Freight Tariff. It specifies rates in cents per hundred pounds for a number of different classes of freight, numerically designated, between all the places upon each line or its connections. But it does not mention specific commodities. The second publication which must be consulted supplies this defect. This is known as the classification. Its function is to group all articles more or less alike in character, so far as they affect transportation cost, or are affected in value by carriage from place to place. These groups correspond to the several numerical classes already named in the freight tariff. Thus dry goods or boots and shoes are designated as first class. It thus appears, as has been said, that a freight rate is made up of two distinct elements equal in importance. The first is the charge corresponding to the distance; the other is the charge as determined by the character of the goods. Consequently, a variation in either one of the two would result in changing the final rate as compounded.

Freight tariffs and classifications are as distinct and independent in source as they are in nature. Tariffs are issued by each railway, by and for itself alone and upon its sole authority. Classifications, on the other hand, do not originate with particular railways at all; but are issued for them by co-operative bodies, known as classification committees. These committees are composed of representatives from all the carriers operating within certain designated territories. In other words, the United States is apportioned among a number of committees, to each of which is designated, by the carriers concerned, the power over classification. New editions of these classifications are published from time to time as called for by additions or amendments, the latest, of course, superseding all earlier ones. Thirty-seven such issues have already appeared in series in trunk lines and southern territory, while fifty have been put forth in western territory, since the practice was standardized in 1888.

171. The Futility of Costs as a Basis for Rates<sup>5</sup>

BY SIDNEY CHARLES WILLIAMS

The theory of price-determination according to cost of production is usually interpreted to mean that the price of each unit is determined ultimately by the cost of production of that unit. Where the unit is large and simple, e. g., in the case of a boat constructed entirely by hand by one man, the only items of expense will be the material, the man's labor, and some trifling sum to cover the cost and wear and tear of his tools; and the price he will ask will be determined accordingly. Modern industrial conditions, however, are much more complicated. A factory or workshop will turn out very many units of many different kinds; involving raw material of varying values, processes of all kinds, simple and elaborate, machinery and labor of many sorts, and each unit of each kind must bear some proportion of those general charges which cannot be attributed to any one class of product, but must be borne by the whole.

Now to what extent is it the case that the price charged for each unit of railway transport is determined by the cost of producing that unit? At first sight it may seem a very simple and satisfactory method of arriving at railway charges. The commodity produced is one—and its cost per unit can be arrived at, and the price to be charged fixed accordingly. But this seeming simplicity is very far from being present in reality. For when we begin to think of concrete instances of railway transport we see that they include commodities very diverse indeed. There are in the first place very many kinds of haulage, pure and simple—for long distances, medium distances, and short distances, with a cost per mile varying according to the distance; there is haulage of all kinds of goods, from coal and limestone to fruit, flowers, dynamite, and cigars, and of all manner of passengers, from a Royal party in a special train, or first-class express traffic to the Scotch moors, to workmen's journeys at 12 miles a penny or half-day seaside trips at similar low charges; there are also many subsidiary services sometimes given, sometimes expressly withheld—cartage, delivery, liability for damage or loss, refrigeration, use of company's wagons, express speed or slow travel, and so forth. In short, we see that the use of the purely abstract word "transport" gives a quite misleading air of simplicity to what is really a congeries of operations of the most diverse kind. Railways in fact produce a far greater variety of commodities than most industrial undertakings.

<sup>5</sup>Adapted from *The Economics of Railway Transport*, pp. 189-98. Copyright 1909 by Macmillan & Co.

But it may be urged, this does not demonstrate the impossibility of basing your railway charges on respective costs of production. This may be done in one or other of two ways. The first and most obvious method is to classify your different services and apportion to each the peculiar expenses connected with it. Then take the whole of the remaining expenditure of a general kind and apportion that among the different services according to their respective prime costs. You will now know the expenditure involved by each service, and as you know the extent of this traffic you will be able to fix a fair and reasonable charge which will just give you your expenditure with a reasonable margin of profit.

If the matter is so simple it should be child's work to apply it to the first great division of railway work, that between passenger and goods traffic. The simplest and clearest subdivision of railway working expenditure is as follows: General Charges, Ways and Works, Rolling-Stock, Traffic Department Expenditure.

Now of all these a good deal is not merely independent of any particular kind of traffic but is independent of traffic altogether. Among such heads of expenditure are directors' fees, the salaries of the managing and legal staff, the rates and taxes paid, the greater part of the cost of maintenance of way and works, and some part of the traffic working expenses. These items clearly cannot be directly connected with the respective amounts of goods or passenger traffic. The cost of passenger and goods locomotives and rolling-stock can, however, be so allocated; so also the cost of their respective train-staffs; and some part of the expenditure of buildings. Indeed, the very variety of methods adopted to secure this allocation themselves testify to the difficulty of the operation; train-mileage has been tried and abandoned, working engine hours are believed in by some, but the only unanimity among experts is as to the caution with which the figures arrived at must be viewed and utilized.

The varying speeds, the different kinds of accommodation, the great variety in the number and complexity of the services rendered, the different sizes of consignments, the different distances for which, the different directions in which, and the different times at which they travel—all these mean some difference in cost; but since this cost is made up of so many countless items, who can undertake to reduce it to a definite schedule of fair prices, however long and complicated? To achieve a result of even useful accuracy when these difficulties are borne in mind, and at the same time it is remembered that the schedule must be simple, uniform, impartial, semi-permanent, and, moreover, must be known before, not after the consignment has been handled—is, it will be recognized, indeed a hopeless task.



But it may be claimed that there is an alternative method with which no such accuracy is expected or desired. All that need be done is to take the number of units of works done, the passenger-miles and ton-miles, and dividing these by the aggregate expenses, so obtain an average figure which will give a working basis for all rates. But even for this less ambitious project there are insuperable difficulties. The average ton-mile will link together such dissimilar units as one ton of coal out of a train load of 800 tons carried, say, 200 miles without a stop and with no auxiliary services, and a ton of cream cheese carried in small consignments over a few miles with many subsidiary services, collection, delivery, packing, weighing, and so forth. The respective rates charged will be as dissimilar as the services rendered. The coal pays a very low rate, but the size, regularity, and easy handling of the traffic make it most acceptable; the cheese traffic pays a high rate, but not too high in view of the care and work it involves. Its very small and variable dimensions, and the high value of the cheese, make the cost of the transit an appreciable item, besides say the profits of the retail trader, and an addition to the price which the well-to-do consumer willingly if unconsciously pays. Apply such an average figure in defiance of all these differing conditions, and the result will only be to kill the low grade traffic and to let off too lightly the high grade traffic, thereby seriously impairing the prosperity of the railway and ultimately injuring the trading public which needs its services.

## 172. Charging What the Traffic Will Bear<sup>6</sup>

BY W. M. ACWORTH

The phrase "charging what the traffic will bear" has, for some not very obvious reason, undoubtedly acquired an ill repute. On the face of it, it surely seems to represent a principle, not of extortion, but of moderation. To charge what the traffic can bear is, in other words, not to charge what the traffic cannot bear. Yet the phrase is commonly understood quite differently. It has been asserted that railway managers claim to estimate for themselves production cost at *A* and selling price at *B*, and to appropriate as railway rate the entire difference. The truth is that, whatever rash statements have been made by individual railway men under peculiar conditions, no railway administration has ever acted on any such principle.

The real meaning of the phrase is that within limits—the supreme limit of what any particular traffic can afford to pay, and the inferior

<sup>6</sup>Adapted from *The Elements of Railway Economics*, pp. 75-78. Copyright by the Clarendon Press, Oxford, 1904.

limit of what the railroad can afford to carry it for—railway charges for different categories of traffic are fixed, not according to an estimated cost of service, but roughly on the principle of equality of sacrifice by the payer. So regarded, "what the traffic will bear" is a principle, not of extortion, but of equitable concession to the weaker members of the community. Had railway managers in the past declared that their principle was "tempering the wind to the shorn lamb," their descriptive accuracy would have been great, while their popularity might have been even greater. Somehow the total cost of maintaining and operating the railway has to be paid for; broadly and in the long run, the capital invested in railway construction must be remunerated at the normal rate of interest. Can any system of apportionment of this necessary expenditure be more equitable than one under which the rich—well-to-do passengers, valuable freight, traffic with the advantage of geographical situation close to the markets, and the like—contribute of their abundance; while the poor—immigrant passengers, bulky articles of small value, traffic that has to travel far to find a market, and so forth—are let off lightly on the ground of their poverty? Translated into railway language the principle means this: the total railway revenue is made up of rates which, in the case of traffic unable to bear a high rate, are so low as to cover hardly more than the actual out-of-pocket expenses; which, in the case of medium-class traffic, cover both out-of-pocket expenses and a proportionate part of the unappropriated cost; and which finally, in the case of high-grade traffic, after covering the traffic's own out-of-pocket expenses, leaves a large and disproportionate surplus available as a contribution toward the unappropriated expenses of the low-class traffic, which such traffic itself could not afford to pay.

This, in principle and in outline, is the system of charging what the traffic can bear. It is the system which is, always has been, and always must be adopted on all railways, whether they be state enterprises or private undertakings. It is a system at once in the interest of the railway, because even the lowest class traffic, by whatever small amount its rates exceed the additional cost of doing the business, contributes to the general expenses of the undertaking; in the interest of the public, because traffic is thereby made possible which could not come into existence at all, if each item of traffic were required to bear, not only its direct expenses, but its full share of all the standing charges; and in the interest of the high-grade traffic, because everything which the low-grade traffic pays beyond its own actual out-of-pocket cost helps to defray the general expenses of the undertaking, which otherwise the high-grade traffic would have to bear unaided.

173. The Incidence of Railway Rates<sup>7</sup>

BY MORDECAI EZEKIEL

Railway rates are almost unique among prices for goods and services. Under the present system of elaborate state and federal regulation, the management has practically no voice in deciding at what price the transportation service shall be sold. Instead, it must accept the rate determined by an outside authority.

In practically all other businesses, if the price proves so high that not enough sales are made, it can be lowered; or if the price proves so low that no profits are made in spite of large sales, at least the price which an individual seller asks for his product can be raised. In that case the prices asked by his competitors and the willingness of purchasers to buy will then determine whether he will be able to make a satisfactory volume of sales at the higher price. By contrast, once railroad rates are fixed, no further change can be made except as the result of the action of the rate-fixing authority, which is slow, indeed, as compared to the freer play of competitive business; and the change may not be made at all, no matter how poorly the new rates work. This rigidity of railway rates and the great power which lies in the hands of the boards and commissions make it of great importance to understand how these rates affect the rest of the economic system. If rate regulation is to serve the whole community, there must be adequate comprehension of how proposed rate changes will affect those who pay them as well as the carriers who will receive them.

From the competitive point of view, the rates for a given commodity must be fixed between two limits; not below the direct cost added by moving the commodity; and not above the price that the commodity can afford to pay for the service. And, in the aggregate, the total income derived from the carriage of all commodities must be such as to yield a sufficient return to pay for the upkeep of the property and insure the provision of such additional funds as are needed to furnish increasing transportation as needed.

The development of extra-competitive means of rate regulation has changed the situation. Rates may now be fixed so high as to shut off a large part of the movement of a commodity, or they may be fixed even below the prime cost of rendering the service. But the final limitation still holds—to be socially useful, rate-regulating bodies must see to it that the rates are such, in the aggregate, as to enable the carriers to bid successfully for human energy and material resources sufficient to conduct their operations, maintain their properties, and

<sup>7</sup>1925.

provide such increased transportation facilities as a developing community requires.

No such definite criterion can be set up as to what should be the rate on a given commodity. The problem from the point of view of total return is fairly clear-cut; from the point of view of individual commodities and individual situations it is much more complex. The great importance of relative rates—as between commodities, between regions, between classes of service—can only be comprehended by an understanding of the extent to which the rate structure molds economic development.

The most fundamental effect of cost of transportation upon economic development is its effect upon the extent to which specialization in production may be carried. This was pointed out by Adam Smith: "The division of labour is limited by the extent of the market." And, in modern society, the possible extent of the market is determined in a very real sense by the cost of transportation.

American agriculture is an excellent example of the way in which transportation rates shape economic development. Cottonseed, produced in the South, and bran and middlings, from wheat produced in the Northwest, are shipped to central New York, there fed to cows in conjunction with hay and silage produced locally, and the milk shipped daily another hundred miles or more to New York City. Most of New York City's butter, on the other hand, comes from mid-western farms which raised most of the feed on which their cows were fed.

Why do the New York farms not produce butter as well as milk? Why do they not grow all their own feed?

Freight rates are important to a proper answer. For it is the structure of various freight charges which makes it possible to distribute the production of milk for New York City between farmers in such a way as to utilize the natural resources of the South, the West, and the East. And similarly, it is the relation between rates on butter and on feeds which prevents New York farmers from competing with mid-western butter producers.

This gives just a glimpse of the way that freight rates have controlled the utilization of the diverse agricultural resources of the United States. Cattle born in Texas and fattened in Iowa are converted into meat at Chicago; lambs born in Wyoming and fed out in Colorado may be shipped east to Jersey City before meeting their fate. Oranges from California, strawberries from Arkansas, lettuce now from Florida or Georgia and now from Idaho, with potatoes from Minnesota and eggs from Washington, grace the eastern table. And in every case the place where and the extent to which each commodity

can be profitably produced is as much a function of the freight rates as of soil and climate.

Between different industries, also, freight rates exert a decisive force. Will given mountainous regions produce coal and ore, or will they produce iron also? Will they ship out pig-iron, or make steel rails and plates, or even fabricate whole machines? What are the freight rates—for the raw materials to other possible points of manufacture? for the products to the place of disposition? for the food and supplies that must be brought in for the workers? These questions must be answered before the most economic utilization of the raw materials can be decided upon.

And in marketing—the production of “place utilities”—freight rates and passenger rates as well are omnipresent in their shaping of the economic pattern. How wide a territory can a given wholesale distributor serve? Where will the trade territory of one commercial center end and of another begin? Where will it be more economical to use traveling salesmen, and where to have local representatives? Will the goods move through one, two, or three intermediaries on their way from manufacturer to retailer? Each of these inquiries brings up not only the question of transportation charges between different goods, but how the rates vary with distance; how long-hauls and short-hauls compare; how car-load rates compare with less-than-car-load and mixed carloads; and so on *ad infinitum*. But little consideration is needed to make this statement self-evident: Change rate relations abruptly, and the whole commercial structure of the region may have to be rebuilt.

To the great urban centers of population transportation charges are of paramount importance. The very life-blood of such communities depends upon never ceasing transportation to bring them raw or partly finished materials and supplies for their own consumption, and to carry away their finished products. And here, in addition, one other element of rate-making enters in—terminal facilities. The necessity of providing enormous terminal facilities may eventually prove the factor which sets a limit to the size to which cities can develop—if the cost of such terminals are levied against the cities which require the service. Here again the transportation charges come in as the controlling force.

Finally, the utilization of natural resources is shaped by the charges made for transportation. Should additional arid land be brought under irrigation? Should the ores of distant places be tapped in place of partially exhausted mines? Should cut-over lands be put back into forest or cleared for farming? Should coal be shipped to the point where the energy is needed, or converted into electrical energy at some

point along the way? Each problem involves the cost of transportation equally as much as the nature of the resource; any long-time program of economic utilization of the resources which cannot be replaced must be worked out with recognition of transportation costs as both a limiting factor and a means of control.

Railway rates, then, must be regulated with a full comprehension of the effect that changes in rates have upon economic life. Members of rate-fixing bodies, and the public generally, must recognize that in fixing certain rates in a certain way they are not only determining what return trainmen and station agents and investors in railway securities will receive, but are directing and molding the whole trend of economic development. Railway rates are purposive—deciding on a certain rate-structure inevitably involves deciding on the future course of development for a section or an industry. Rate regulation must be carried out with full comprehension of the far-reaching effects of the decisions.

### C. THE NATURE AND EXTENT OF REGULATION

#### 174. Complaints against the Railroad System<sup>a</sup>

1. That local rates were unreasonably high, compared with through rates.

2. That both local and through rates were unreasonably high at noncompeting points, either from the absence of competition or in consequence of pooling agreements that restricted its operation.

3. That rates were established without apparent regard to the actual cost of the service performed, and are based largely on "what the traffic will bear."

4. That unjustifiable discriminations were constantly made between individuals in the rates charged for like service under similar circumstances.

5. That improper discriminations were made between articles of freight and branches of business of a like character, and between different quantities of the same class of freight.

6. That unreasonable discriminations were made between localities similarly situated.

7. That the effect of the prevailing policy of railroad management was, by an elaborate system of secret special rates, rebates, drawbacks and concessions, to foster monopoly, to enrich favored shippers, and to prevent free competition in many lines of trade in which the item of transportation is an important factor.

<sup>a</sup>Adapted from the *Report of the Senate Select (Cullom) Committee on Interstate Commerce, I* (1886), 180-81.

the former law. Such officers and agents continue to be liable as heretofore, but this liability is now extended to the corporation which they represent.

The amended law has abolished the penalty of imprisonment, and the only punishment now provided is the imposition of fines. As the corporation cannot be imprisoned or otherwise punished than by money penalties, it was deemed expedient that no greater punishment be visited upon the offending officer or agent.

Under the former law it was not sufficient to show that a secret and preferential rate had been allowed in a particular case; there had to be further proof of the payment of higher charges by some other person on like and contemporaneous shipments. The result was to render successful prosecutions almost impossible. This defect seems to have been remedied. The new law in most explicit terms makes the published tariff the standard of lawfulness, and any departure therefrom is declared to be a misdemeanor. It is sufficient now to show that a lower rate than that named in the tariff has been accorded.

A further provision of the law makes it lawful to include as parties, in addition to the carrier complained of, all persons interested in or affected by the matters involved in the proceeding. Under the former law carriers only could be made parties defendant; under the amended law shippers may also be included.

Another provision confers jurisdiction upon the circuit courts of the United States to restrain departure from published rates, or "any discriminations forbidden by law," by writ of injunction, or by other appropriate process.

#### 177. The Provisions of the Hepburn Bill<sup>11</sup>

BY LOGAN G. MC PHERSON

The Hepburn Bill took effect on August 28, 1906. The bill provides:

a) That as "common carriers" under the Interstate Commerce Law shall be included companies transporting oil by pipe lines, express companies, sleeping car companies, all switches, tracks, terminal facilities, and that "transportation" under the law shall include all cars regardless of their ownership, and all service in transit.

b) Prohibits the issue of passes, with certain specified exceptions that cover mainly employes, fixing a penalty in case of violation that shall apply to both the giver and the recipient.

<sup>11</sup>Adapted from *The Working of the Railroads*, pp. 155-59. Copyright by Henry Holt & Co., 1907.

c) Makes it unlawful after May 1, 1908, for any railroad company to transport for sale any commodities in which it may have a proprietary interest, except lumber and its products.

d) Provides that a common carrier shall provide, when practicable, and upon reasonable terms, a switch connection for any applicant who shall furnish sufficient business to justify its operation.

e) Makes more explicit the specification as to the filing of tariffs, especially providing for the posting and filing of through tariffs; fixing penalty for violation.

f) Provides that "every person or corporation, whether carrier or shipper, who shall knowingly offer, grant, give or solicit, or accept, or receive rebates, concession, or discrimination, shall be deemed guilty of a misdemeanor, and on conviction thereof shall be punished by a fine of not less than one thousand or more than twenty thousand dollars." Moreover, any person, whether officer or director, agent or *employee*, convicted of such misdemeanor, "shall be liable to imprisonment in the penitentiary for a term not exceeding two years, or both fine and imprisonment in the discretion of the court." In addition, the acceptor of any rebate shall forfeit to the United States three times the amount of the rebate.

g) Provides for the publication of the reports and the decisions of the Commission and their acceptance as evidence.

h) Empowers the Commission, if upon complaint it finds that a rate, or any regulation or practice affecting a rate, is "Unjust or unreasonable, or unjustly discriminatory, or unduly preferential or prejudicial," to determine and prescribe a maximum rate to be charged thereafter and modify the regulation or practice pertaining thereto.

i) Empowers the Commission to award damages against a carrier in favor of a complainant.

j) Provides for forfeit to the United States, in case of neglect to obey an order of the Commission, in the sum of five thousand dollars for each offense, each violation and each day of its continuance to be deemed a separate offense.

k) Empowers the Commission to apply to a circuit court for the enforcement of its order, other than for the payment of money; for the appeal by either party to the Supreme Court of the United States; and that no order of the Commission shall be suspended or restrained, except on hearing, after not less than five days' notice to the Commission.

l) Provides for the rehearing by the Commission, upon application, at its discretion.



m) Authorizes the Commission to require annual reports from all common carriers, that shall contain specified information; to prescribe the form of any and all accounts, records and memoranda to be kept by carriers, making it unlawful for the carriers to keep any other accounts, records, or memoranda than those prescribed and approved by the Commission; provides that all accounts of the carriers shall be open to the inspection of the special agents, or examiners employed by the Commission.

n) Provides that a common carrier issuing a through bill of lading shall be responsible for loss, damage or injury to the property covered thereby upon the lines of any company over which it may pass, leaving it to the line issuing the way-bill to gain recovery from another line upon which the loss, damage, or injury may have occurred.

o) Enlarges the Interstate Commerce Commission from five to seven members, with terms of seven years, increasing the salary from seven thousand five hundred to ten thousand dollars per annum.

#### 178. The Mann-Elkins Act<sup>12</sup>

The Interstate Commerce Bill, as it was reported out of conference on June 14, contains the following provisions:

1. It creates a court of commerce for the enforcement of orders of the Interstate Commerce Commission.<sup>13</sup>

2. It provides that no railroad shall charge any greater compensation for a shorter than for a longer haul, except in case where such action is authorized after investigation by the Interstate Commerce Commission.

3. It provides that railroads shall be required to state in writing the rate or charge applicable to a described shipment.

4. The Interstate Commerce Commission upon complaint is authorized to determine and prescribe the just and reasonable individual or joint rate as the maximum to be charged and to specify the individual or joint classification, regulation, or practice which it deems to be fair, just, and reasonable.

5. The commission may suspend the operation of any new rate, classification, regulation, or practice for a period not exceeding 120 days, and extend the time of suspension for a further period of six months, after which time the new rate, classification, regulation or practice will become effective unless the commission orders to the contrary.

<sup>12</sup>Adapted from articles in the *Railway and Engineering Review*, L (1910), 546-47, 587.

<sup>13</sup>This court was practically abolished in 1912 by the failure of Congress to make financial provision for its support.

6. The commission may establish through routes and joint classifications and joint rates as to the maximum to be charged whenever the carriers themselves refuse to do so.

7. The right is given to the shipper to designate one of several through routes by which his property shall be transported to its destination.

8. Every failure to obey an order of the commission shall be punished by a fine of \$5,000.

9. Copies of classification, tariffs, etc., furnished to the commission shall be public records.

10. Authority is granted for the appointment of a commission to report upon the advisability of the physical valuation of roads and the control of railroad capitalization.

#### 179. The Esch-Cummins Act<sup>14</sup>

The essentials of the act are as follows:

1. Federal control shall cease on March 1, 1920, although the governmental guaranty of returns is continued for six months longer. A procedure is outlined for the transfer of the properties from the "government" to their "owners."

2. A "rule" of rate-making is set up. In its broad terms the Commission shall initiate and establish as "reasonable rates" tariffs which will enable the railroads as a whole, or as rate groups designated from time to time by the Commission, to earn a fair return upon the properties used for transportation under a management which is honest, efficient, and economical. This should enable the Commission to base rate structures as a whole, not upon actual, but upon necessary, costs of production.

3. Provision is made for a division of excess earnings between the railroads and the government. Each railroad keeps all of its earnings up to 6 per cent of the valuation. Of the "net railway operating income" in excess of 6 per cent it retains one-half and turns the other half over to the Commission. The sum retained by the railroad is to be placed in a reserve fund which, under prescribed conditions, can be used to make up a deficit, pay a dividend, or extend the properties. This is the well-known "recapture clause." It is an attempt to solve the problem of formulating a system of rates which will under competitive conditions permit weaker roads to live and prevent stronger ones from receiving excessive earnings.

4. The Commission is empowered to establish minimum rates, which the railroads must not reduce, as well as maximum rates, which they must not exceed. The discretion of the Commission in allowing

<sup>14</sup>An editorial (1925).

a greater charge for a shorter than for a longer haul is further restricted. The Commission is also empowered to change intrastate rates which confuse the operation of interstate rates.

5. The anti-pooling section of the Act to Regulate Commerce is modified to allow the railroads, with the consent of the Commission, to pool their freight or earnings.

6. The Commission is to prepare a plan for the consolidation of railroad properties into a limited number of systems. In this, competition is to be preserved as far as may be. These systems are to be composed of "weak" and "strong" railroads so arranged that under uniform rates and efficient managements the various systems shall earn about the same rate of return upon their respective railway properties. The plan is to be published, and public hearings upon it are to be had. Voluntary consolidations are to be permitted by the Commission which are in the public interest and in harmony with this plan.

7. The Commission is given large power over "car service." This includes "the use, control, supply, distribution, exchange, interchange, and return of locomotives, cars, and other vehicles used in transportation." The power of the Commission to require of the railroads "safe and adequate service" constitutes a rather comprehensive control over railroad properties.

8. There is created a Railroad Labor Board of nine members. Three members are to be chosen by the President to represent the public, three from a list of six presented by the railroads to represent the managements, and three from a list of six presented by the laborers to represent the employees. The Board is to hear and decide cases involving grievances, rules, and working conditions, and to attempt to settle disputes between employers and employees over wages and other matters. It is expected that the Board will eventually evolve standards in respect to working conditions, rates of wages, and the like. Subordinate to the General Board any railroad group and any group of employers may by agreement set up a Railroad Board of Labor Adjustment, which is initially to attempt mediation before cases are carried to the higher tribunal.

#### D. VALUATION OF THE RAILROADS

##### 180. Necessity for Valuation of Railway Property<sup>15</sup>

The Commission desires to reaffirm its opinion that it would be wise for Congress to make provision for a physical valuation of rail-

<sup>15</sup>Adapted from the *Twenty-second Annual Report of the Interstate Commerce Commission* (1908), pp. 83-85.

way property. The increased responsibilities imposed upon the Commission make continually clearer the importance of an authoritative valuation of railway property, made in a uniform manner for all carriers in all parts of the country.

In the first place, the Commission has been called upon to pass judgment upon certain rate cases, in which the reasonableness of a general level of rates was brought into question, and for such cases one of the most important considerations is the amount of profit secured to the investment. The actual investment in an enterprise needed for giving the public adequate transportation facilities is entitled to a reasonable return, and no more than a reasonable return, in the form of a constant profit; and a reasonable schedule of rates is one that will produce such a return.

There is a growing tendency on the part of carriers to meet attacks upon their rates by making proof, through their own experts, of the cost of reproducing their physical properties. It is obviously impossible for shippers who are complainants in such cases to meet and rebut such testimony, or even intelligently cross-examine the railroad witness by whom such proof is made. In addition to the large expense of retaining experts competent to make such investigations, the shippers have no access to the property of the carriers or to their records showing the cost of construction and other necessary information. The carriers, on the other hand, having access to the records and property, can use the information compiled from them or not, in any given case, as their interests may require.

A second consideration is the importance which the question of capitalization has assumed in recent years. No one at the present time can say whether railways are undercapitalized or overcapitalized. A valuation adequate to this problem should not stop with the simple statement of an amount; on the contrary, it should analyze the amount ascertained according to the sources from which the value accrues and show the economic character as well as the industrial significance of the several forms of value.

A third argument is found in the present unsatisfactory condition of railway balance sheets. The balance sheet is, perhaps, the most important of the statements that may be drawn from the accounts of corporations; for, if correctly drawn, it contains not only a classified statement of corporate assets and corporate liabilities, but it provides in the balance, that is to say, the "profit and loss," a quick and trustworthy measure of the success that has attended the operation and management of the property. Every balance sheet begins with "cost of property," against which is set a figure which purports to stand for the investment. At present no court, commis-

sion, accountant, or financial writer would for a moment consider the present balance sheet statement, purporting to give the "cost of property," even in a remote degree, as a reliable measure either of the money invested or of present value. Thus, at the first touch of critical analysis, the balance sheets of American railways are found to be inadequate. They are incapable of rendering the service which may rightly be demanded of them. The only possible cure for such a situation is for the government to make an authoritative valuation of railway property, and to provide that the amounts so determined be entered upon the books of the carriers as the accepted measure of capital assets.<sup>16</sup>

#### 181. Market Value as a Basis for Rates<sup>17</sup>

BY ROBERT H. WHITTEN

The theory that rates should be based upon market value would allow the railroad a return on monopoly value from favorable location. Such a monopoly value is not usually claimed for utilities. It is somewhat similar to the claim that location in the city streets under a franchise can be capitalized for rate valuation purposes. A closer parallel, however, is the case of a water supply plant that has secured the most economical source of supply. It is inconsistent with what is believed to be the governing principle of justice and equity which forms the basis of public service control, that rates should be increased, in order to pay a return on the capitalized value of exclusive location or other monopoly advantage that represents no actual investment. A railroad exercises the right of eminent domain to secure its location and the right of eminent domain can only be lawfully exercised for a public purpose. The location secured by this method for a public purpose cannot justly create a monopoly that will be capitalized against the very public purpose that it was intended to serve—the transportation of freight and passengers.

By the foregoing method rates are based on cost, but not necessarily on the cost of the road itself, but in many cases on the cost of a competing or hypothetical road. Market value has nothing to do with the rate question as thus considered. It is only set up after the rates are in fact determined. To be sure, the theory is that rates are based on a fair return on the market value of the road under reasonable rates. The impossibility of basing reasonable rates on a market

<sup>16</sup>An Act of Congress, of March 1, 1913, provided for the valuation of the property of all common carriers in the United States under the direction of the Interstate Commerce Commission.

<sup>17</sup>Adapted from *Valuation of Public Service Corporations*, pp. 53-55. Copyright by the author, 1912.

value that is itself determined by reasonable rates is apparent. It is a clear case of reasoning in a circle. We have the evident absurdity of requiring the answer to the problem before we can undertake its solution. Market value is not really a part of the process but the final result. It includes in many cases a capitalization of certain monopoly profits and the monopoly value thus created is set up as justifying the higher rates which have in fact created the monopoly value.

#### 182. Physical Valuation as the Basis of Rates<sup>18</sup>

BY SAMUEL O. DUNN

In recent years a new theory of the proper way to ascertain the reasonableness of rates has gained wide acceptance. Many believe that the railways of this country are overcapitalized. They think, therefore, that the return on their capitalization is not a criterion of the reasonableness of their rates. The sole true criterion, they believe, is a "fair return" on the "fair value" of the properties of the railways; a "fair return" is the current rate of interest; and therefore the government should make a valuation of the properties, and in future so regulate rates as to restrict net earnings to the current rate of interest on this valuation.

Many believe that large amounts of net earnings, that legally might have been paid out to the stockholders, have instead been invested in the properties. The properties also contain a large amount of so-called "unearned increment." It is argued that, as railways are public service corporations, their owners are not entitled to receive a return on those parts of their value which have been created by the investment of earnings or by increases in the value of real estate caused by the industrial development of the country.

The owners and managers contend, on the other hand, that in any estimate that may be made of the value of the properties on which a return should be allowed to be earned, every factor entering into their present value should be considered. The net earnings, they say, belong to the stockholders. They may either invest them or pay them out as dividends; and where they have chosen to invest them the value thereby added belongs to them. They also own the real estate used for railway purposes as absolutely—so long as it is used for railway purpose—as the farmer owns his farm; and therefore they have the same right, it is said, to profit by increases in its value.

From a legal standpoint the spokesmen for the railways seem to have the better of the argument. The fifth and fourteenth amend-

<sup>18</sup>Adapted from *The American Transportation Question*, pp. 84-95. Copyright by D. Appleton & Co., 1912.

ments to the federal Constitution prohibit the nation and the states from taking private property for public use without due process of law and just compensation. When the railway, in the exercise of the power of eminent domain, takes the farmer's land, these provisions are construed to mean that it must pay him for it—not what it cost him—but its reasonable market value at the time that it is taken. A similar construction of the same provisions as they apply to railways would require that rates should be so regulated as to enable the railways to earn a return on the value of their properties at the time that the rates are being regulated, however the value may have been created. For if the rates were so regulated as to disable the company from earning a return on any part of the value of its property this would be, in effect, to take so much of its value.

Any plan for valuation, other than present value, is indefensible. Cost of reproduction is no exception. It costs on the average from one and one-third to three times as much to get land for railway as for other purposes. This is because its acquisition and use for railway purposes involve damage to adjacent property which must be paid for, and because land that is directly in the path of a coming railway attains a monopoly value. The Railroad Commission of Minnesota, in making its valuation of the railways of that state, held that the appraisal of railway land should be based on the value of adjacent land used for other purposes.

But how, railway men ask, can what the farmer would have to pay for land properly be used as a factor in estimating what it would cost to reproduce the railway? Suppose that adjacent farm land were worth \$100 an acre; that the valuation of an established railway were made on this basis; and that afterward there was built a new and competing line, to which the actual cost of land was \$200 an acre. The competitive rates on competing railways must be the same. If the rates of the older railway were to be so fixed as to restrict it to a return on \$100 an acre, the new railway would have to meet them and might thereby be deprived of the opportunity to earn a return on part of its actual investment. This would tend to discourage new railway construction.

The Railroad Commission of Washington met a situation similar to this when it made its valuation of the railways of that state. The Northern Pacific, many years ago, acquired land for extensive terminals on Puget Sound at a low price. The Harriman lines recently built to Puget Sound, and because of the increase in the value of land had to pay very much more for it. The two systems were competitors, and had to make the same competitive rates. To have based the valuation of the Northern Pacific's land on its original cost, or on its

estimated value for other than railway purposes, might have prevented the Harriman lines from earning a fair return on the actual cost of their land. The Commission, therefore, based the valuation of the land of both roads on its present estimated cost of acquisition for railway purposes.

Another important point in estimating the cost of reproducing the physical plants of railways is what deduction should be made for depreciation, and what addition should be made for appreciation, in the value of their various parts. The moment a rail or tie is laid, or a signal tower or station is finished, it begins to deteriorate, owing to use, and the ordinarily insidious, but often violent, ravages of the elements. But while the depreciation is going on there is also appreciation going on. As soon as a new line is finished maintenance forces are put to work, if it is well managed, which limit the depreciation that takes place by making constant repairs and renewals. If a deduction from the cost of reproduction should be made because of depreciation, an addition to it should be made because of appreciation.

According to the widely accepted theory, as soon as an estimate of the cost of physical reproduction is finished, we should go ahead and so regulate rates on a road as to limit each carrier to the same return. But is such an estimate a valuation? Indubitably, other things being equal, a railway having a good physical plant is more valuable than one having a poor one. But, surely, the estimated cost of reproducing a railroad's plant is not the value of the plant; and the value of the plant is not the value of the railroad.

A railway through mountainous country might be more expensive to reproduce than one built through easy prairie country; but the latter's plant may be the more valuable, simply because it is the better machine for rendering transportation.

Again, of two roads having equally good physical plants, that having the larger net earnings is plainly the more valuable. Now, net earnings do not depend solely on rates. They are the margin between gross earnings and operating expenses. Gross earnings depend not only on the rates charged, but on the nature and density of traffic. These, in turn result largely from the energy and skill used by the traffic department of the railway in attracting population to its lines, teaching the farmers how to increase the productivity of the soil, securing the opening of mines and the location of factories and so adjusting rates as to enable producers in the territory to compete successfully in the markets of the entire country and of the world against the producers in other sections and countries. Whether operating expenses shall be high or low in proportion to gross earn-



ings depends on the enterprise and skill used by the management in reducing the grades and eliminating the curvature in track, in enlarging terminals, developing esprit de corps among officers and employees, increasing shop efficiency, augmenting tonnage per car and per train load, and in a hundred other elements of good management. A road whose traffic is large and whose operating expenses are relatively small obviously would have larger net earnings, and, therefore, be a more valuable property than a road on which the traffic is relatively small and the operating expenses relatively high, on any basis of rates whatever that might be applied on both.

Large traffic and relatively low operating expenses are strong evidences of good management. If valuation were based entirely on the cost of physical reproduction, and the net earnings of each road could be, and were, limited to the same amount, the better managed roads would be deprived of the fruits of their good management.

As a matter of fact, such regulation probably would be entirely impracticable; for the competitive rates on different roads must be the same; and, owing to the differences in density of traffic and operating expenses, no two roads charging the same rates could be made to earn the same percentages on their valuations.

### 183. The "Railway Value" of Land<sup>19</sup>

It is manifest that an attempt to estimate what would be the actual cost of acquiring the right of way if the railroad were not there is to indulge in mere speculation. The railroad has long been established; to it have been linked the activities of agriculture, industry, and trade. Communities have long been dependent upon its service, and their growth and development have been conditioned upon the facilities it has provided. The uses of property in the communities which it serves are to a large degree determined by it. The values of property along its line largely depend upon its existence. It is an integral part of the communal life. The assumption of its non-existence, and at the same time that the values that rest upon it remain unchanged, is impossible and cannot be entertained. The conditions of ownership of the property and the amounts which would have to be paid in acquiring the right of way, supposing the railroad to be removed, are wholly beyond reach of any process of rational determination. The cost-of-reproduction method is of service in ascertaining the present value of the plant, when it is

<sup>19</sup>Adapted from the opinion of the court in *Simpson v. Shepard*, 33 Supreme Court Reporter 761 (1913). This is the well-known "Minnesota Rate Case."

reasonably applied and when the cost of reproducing the property may be ascertained with a proper degree of certainty. But it does not justify the acceptance of results which depend upon mere conjecture.

The question is whether, in determining the fair present value of the property of the railroad company as a basis of its charges to the public, it is entitled to a valuation of its right of way not only in excess of the amount invested in it, but also in excess of the market value of contiguous and similarly situated property. For the purpose of making rates, is its land devoted to the public use to be treated (irrespective of improvements) not only as increasing in value by reason of the activities and general prosperity of the community, but as constantly outstripping in this increase all neighboring lands of like character, devoted to other uses? If rates laid by competent authority, state or national, are otherwise just and reasonable, are they to be held to be unconstitutional and void because they do not permit a return upon an increment so calculated?

It is clear that in ascertaining the present value we are not limited to the consideration of the amount of the actual investment. If that has been reckless or improvident, losses may be sustained which the community does not underwrite. As the company may not be protected in its actual investment, if the value of its property be plainly less, so the making of a just return for the use of the property involves the recognition of its fair value if it be more than its cost. The property is held in private ownership, and it is that property, and not the original cost of it, of which the owner may not be deprived without due process of law. But still it is property employed in a public calling, subject to governmental regulation, and while, under the guise of such regulation, it may not be confiscated, it is equally true that there is attached to its use the condition that charges to the public shall not be unreasonable. And where the inquiry is as to the fair value of the property, in order to determine the reasonableness of the return allowed by the rate-making power, it is not admissible to attribute to the property owned by the carriers a speculative increment of value, over the amount invested in it and beyond the value of similar property owned by others, solely by reason of the fact that it is used in the public service. That would be to disregard the essential conditions of the public use, and to make the public use destructive of the public right.

The increase sought for "railway value" in these cases is an increment over all outlays of the carrier and over the values of similar land in the vicinity. It is an increment which cannot be

referred to any known criterion, but must rest on a mere expression of judgment which finds no proper test or standard in the transactions of the business world.

Assuming that the company is entitled to a reasonable share in the general prosperity of the communities which it serves, and thus to attribute to its property an increase in value, still the increase so allowed, apart from any improvements it may make, cannot properly extend beyond the fair average of the normal market value of land in the vicinity having a similar character. Otherwise we enter the realm of mere conjecture. We therefore hold that it was error to base the estimates of value of the right of way, yards, and terminals upon the so-called "railway value" of the property. The company would certainly have no ground of complaint if it were allowed a value for these lands equal to the fair average market value of similar land in the vicinity.

## E. CURRENT ASPECTS OF REGULATION

### 184. The Magnitude of the Industry<sup>20</sup>

In the last fifty years—not a long period in the life of a great nation—civilized man has developed a new economic society. This society is dependent upon an adequate supply of good railroad transportation. Particularly is this true in the United States, with its great area, large population, and diversified forms of industry.

A dependable supply of good transportation by railroads is essential to the present and future welfare of the country and all of its people. How best to obtain this is a question that is of importance to everyone.

In the calendar year 1923, the steam railroads of the country actually expended for additions and betterments, to extend and improve their transportation plants, \$1,059,149,426. Of this stupendous sum \$208,966,280 was for locomotives, \$472,757,711 for cars, and \$377,425,435 for other improvements.

In 1924, expenditures authorized by the steam railroads amounted to \$1,077,297,000, of which \$101,233,000 was for locomotives, \$412,264,000 for cars, and \$563,800,000 for other improvements. Six hundred and eleven million dollars was spent in the first nine months of 1924.

The total authorized expenditures for the years 1923 and 1924 were \$2,136,446,426.

<sup>20</sup>Adapted from *The Railways of the United States*. Published by the Economic Club of New York, 1925.

These expenditures have contributed in no small way to general prosperity. About 27 per cent of all the steam coal produced in this country is consumed by the steam railroads. More than 35 per cent of all steel products is purchased by the carriers. Over one-fifth of all the lumber produced is used by the roads. As an industry, the steam railroads are the largest purchasers of supplies in the country. The prosperity of all the people is directly or indirectly affected by the purchase or the failure to make purchases on the part of the carriers.

The steam railroads give direct employment to nearly 2,000,000 workers, whose combined wages annually are over \$3,000,000,000. These men and women, with their families and their dependents, constitute a total of probably no less than 8,000,000 persons whose daily sustenance and well-being depend almost altogether upon the railroad pay-roll. In the industries which look to the railroads to buy their products, there are probably another 2,000,000 men and women employed.

There are about 2,000,000 holders of railroad stocks and bonds. Recent statistics indicate that one-third of the assets of the five largest insurance companies, or over \$1,300,000,000, is invested in railroad securities. Three companies alone have outstanding nearly 60,000,000 insurance policies. Savings banks are likewise large holders of railroad securities. The credit standing of the carriers is therefore a vital social as well as economic problem.

In 1916 taxes paid amounted to \$157,113,372. In 1923, taxes had increased to approximately \$322,000,000—111.4 per cent. In the present year the tax bill is nearly \$1,000,000 a day.

The net ton mile, or a ton of freight carried 1 mile, is a measure of transportation service. Net ton miles on the steam railroads in 1916 were 396,400,000,000; in 1923, 456,237,000,000, an increase of 60,000,000,000.

This means that the freight transportation provided was equivalent to the movement by truck or wagon of 4,545 pounds of commodities 5 miles every day in the year for every man, woman and child in the country.

The number of miles of passenger transportation furnished in 1923 was 37,957,000,000. This means that enough passenger transportation was provided to give each one of the 110,000,000 population a trip of 345 miles.

In addition, the railroads handle enormous quantities of baggage, mail, and express.

On Wednesday, October 15, 1924, the steam railroads moved 1,030,211 freight cars, including both loaded and empty. This was the greatest movement for any one day in the history of the railroads.

During the week ended October 25, 1924, the greatest number of cars was loaded with revenue freight for any one week in the history of the railroads—1,112,345. At the same time there were 95,000 freight cars in good repair and available for service and 5,000 serviceable locomotives in storage, and no car shortage, congestion, or other transportation disability.

The net railway operating income of the roads for the calendar year 1916 was \$1,040,084,517. From 1916 to 1923 new capital to the amount of \$3,896,000,000 was invested in the property. In 1923, the net railway operating income of these roads was a little less than \$962,000,000, or \$78,000,000 less than in 1916.

The return on investment in road and equipment, including materials and supplies and cash on hand, in 1916 was 5.90 per cent. In 1923, the return on investment was 4.43 per cent.

Shippers in all parts of the country and in all lines of industry and trade have testified publicly to the high excellence of transportation service afforded them during the past two years, despite the unprecedented and extraordinary demands made upon the carriers for transportation service. Both shippers and employees have co-operated with railroad management in making this commendable record possible.

#### 185. The Validity of the Recapture Clause<sup>21</sup>

The main question in this case is whether the so-called "recapture" paragraphs of the Transportation Act of 1920 are constitutional.

The Dayton-Goose Creek Railway Company is a corporation of Texas, engaged in intrastate, interstate, and foreign commerce. Its volume of intrastate traffic exceeds that of its interstate and foreign traffic. In response to orders of the Interstate Commerce Commission, the carrier made returns for ten months of 1920, and for the full year of 1921, reporting the value of its railroad property employed in commerce and its net revenue therefrom. It earned \$21,666.24, more than 6 per cent, on the value of its property in the ten months of 1920, and \$33,766.98 excess in the twelve months of 1921. The Commission requested it to report what provision it had made for setting up a fund to preserve one-half of these excesses, and to remit the other half to the Commission.

The carrier then filed the present bill, setting forth the constitutional invalidity of the recapture provisions of the Act and the orders of the Commission based thereon, averring that it had no adequate

<sup>21</sup>Adapted from the opinion of the court in the case of *Dayton-Goose Creek Railway Company v. The United States, the Interstate Commerce Commission, et al.*, decided January 7, 1924.

remedy at law to save itself from the irreparable wrong about to be done to it by enforcement of the provisions and praying that the defendants be temporarily restrained from prosecuting any civil or criminal suit to enforce the Commission's orders and that the Court on final hearing make the injunction permanent.

It is insisted here that the power to regulate interstate commerce is limited to the fixing of reasonable rates and the prevention of those which are discriminatory, and that when these objects are attained, the power of regulation is exhausted. This is too narrow a view of the commerce clause. To regulate in the sense intended is to foster, protect, and control the commerce with appropriate regard to the welfare of those who are immediately concerned, as well as the public at large, and to promote its growth and insure its safety.

Title IV of the Transportation Act, embracing Sections 418 and 422, is carefully framed to achieve its expressly declared objects. Uniform rates enjoined for all shippers will tend to divide the business in proper proportion so that when the burden is great, the railroad of each carrier will be used to its capacity. If the weaker roads were permitted to charge higher rates than their competitors, the business would seek the stronger roads with the lower rates, and congestion would follow. The directions given to the Commission in fixing uniform rates will tend to put them on a scale enabling a railroad of average efficiency among all the carriers of the section to earn the prescribed maximum return. Those who earn more must hold the excess primarily to preserve their sound economic condition and avoid wasteful expenditures and unwise dividends. Those who earn less are to be given help by credit secured through a fund made up of the other half of the excess. By the recapture clauses Congress is enabled to maintain uniform rates for all shippers and yet keep the net returns of railways, whether strong or weak, to the varying percentages which are fair, respectively, for them. The recapture clauses are thus the key provision of the whole plan.

Having regard to the property rights of the carriers and the interest of the shipping public, the validity of the plan depends on two propositions.

*First.*—Rates which as a body enable all railroads necessary to do the business of a rate territory or section, to enjoy not more than a fair net operating income on the aggregate value of their properties therein economically and efficiently operated, are reasonable from the standpoint of the individual in that section. He with every other shipper similarly situated in the same section is vitally interested in having a system which can do all the business offered. If there is congestion, he suffers with the rest. He may therefore properly be

required in the rates he pays to share with all other shippers of the same section the burden of maintaining an adequate railway capacity to do their business. This conclusion makes it unnecessary to discuss the question mooted whether shippers are deprived of constitutional rights when denied reasonable rates.

*Second.*—The carrier owning and operating a railroad, however strong financially, however economical in its facilities, or favorably situated as to traffic, is not entitled as of constitutional right to more than a fair net operating income upon the value of its properties which are being devoted to transportation. By investment in a business dedicated to the public service the owner must recognize that, as compared with investment in private business, he cannot expect either high or speculative dividends but that his obligation limits him to only fair or reasonable profit. If the company owned the only railroad engaged in transportation in a given section and was doing all the business, this would be clear. If it receives a fair return on its property, why should it make any difference that other and competing railroads in the same section are permitted to receive higher rates for a service which it costs them more to render and from which they receive no better net return? The reduction of the net operating return provided by the recapture clause is, as near as may be, the same thing as if rates had all been reduced proportionately before collection.

We have been greatly pressed with the argument that the cutting down of income actually received by the carrier for its service to a so-called fair return is a plain appropriation of its property without any compensation, that the income it receives for the use of its property is as much protected by the Fifth Amendment as the property itself. The statute declares the carrier to be only a trustee for the excess over a fair return received by it. Though in its possession, the excess never becomes its property and it accepts custody of the product of all the rates with this understanding. It is clear, therefore, that the carrier never has such a title to the excess as to render the recapture of it by the government, a taking without due process.

It is then objected that the government has no right to retain one-half of the excess, since, if it does not belong to the carrier, it belongs to the shippers and should be returned to them. If it were valid, it is an objection which the carrier cannot be heard to make. It would be soon enough to consider such a claim when made by the shipper. But it is not valid. The rates are reasonable from the standpoint of the shipper as we have shown, though their net product furnishes more than a fair return for the carrier. The excess caused by the discrepancy between the standard of reasonableness for the shipper and

that for the carrier, due to the necessity of maintaining uniform rates to be charged the shippers, may properly be appropriated by the government for public uses because the appropriation takes away nothing which equitably belongs either to the shipper or to the carrier. Yet it is made up of payments for service to the public in transportation, and so it is properly to be devoted to creating a fund for helping the weaker roads more effectively to discharge their public duties. Indirectly and ultimately this should benefit the shippers by bringing the weaker roads nearer in point of economy and efficiency to the stronger roads and thus making it just and possible to reduce the uniform rates.

#### 186. The Economics of Consolidation<sup>22</sup>

BY JOHN E. OLDHAM

One of the most interesting and important features of the Transportation Act is its provision for consolidations. The Act contemplates the merging of all the railroads of the country into a few large systems under the direction of and in accordance with plans to be prepared by the Interstate Commerce Commission. The Act specifically provides that the Commission in preparing its plan shall aim to preserve competition as fully as possible.

The principle has been long established by the Federal Constitution and interpreted and enforced on numerous occasions by the highest courts that the owners of property used in the public service were entitled to receive a fair return upon the value of their property. Consequently every railroad corporation, if it was efficiently managed, was constitutionally entitled to a fair return upon the value of its property, and every railroad was entitled to the same rate of return as every other road, for a fair rate of return for one is, within the intent of the Constitution, a fair rate of return for all.

In order that all railroads, operating as they do under different conditions and circumstances, may receive the same rate of return, it would appear necessary to provide for each road a separate system of rates based upon its particular requirements. Rate-making on this basis, however, was not considered by or even suggested to the committees of Congress which were concerned with the subject, a fact which may be taken as conclusive evidence of its impracticability. Although it was recognized that conditions of operation varied with the different roads and, consequently, that nothing other than a separate system of rates for each road would suffice to give each road the same

<sup>22</sup>Adapted from "The Problem of Railroad Consolidations," *Harvard Business Review*, I, 139-44. Copyright, 1923.



rate of return as that received by every other road, yet it was at the same time recognized that rates could not be made for individual roads; on the contrary, it was recognized that there must be rates which would be substantially uniform for all roads operating within a given district regardless of the individual requirements of the separate roads. That roads could not successfully compete for the same business except under the same rates was obvious. Rates for competitive business must therefore be the same. That industries in different sections of the country generally could not compete successfully with one another except under similar transportation charges for similar service, while not as obvious, was nevertheless recognized to a large extent to be a fact. Rates, therefore, must be substantially uniform for non-competitive as well as for competitive business.

It was thus seen to be necessary to establish a substantial uniformity of rates throughout a given territory, and to determine the basis upon which the rates should be established. It was clear that the requirements of those railroads, the operating costs of which were above the average of all roads within the district, could not be the sole basis for rates, for rates on this basis would produce for the railroads as a whole more than the required return, and would compel the public to pay more than the total cost of the service rendered. On the other hand, it was likewise clear that the requirements of those roads in the district, which, because of their circumstances, were able to operate at a cost lower than the average for all roads of the district, could not be the sole basis of rates, for rates on this basis would produce for the railroads as a whole less than the required return, and the public would thus pay less than the total cost of the service rendered.

It was inevitable that the rates must be based upon average requirements, and that the correct level of rates could be determined only by taking into account the combined requirements of all the roads in any given district. In other words, it became clear that rates must be made with reference to the total requirements of all the roads of a given district even though from rates thus made some roads would obtain more, and other roads less, than was necessary for the fair return upon their respective properties. By establishing rates on the basis of the total requirements of all roads within the territory, the public would pay and the railroads as a whole would receive the total cost of transportation within the territory to which the rates applied, and at the same time the public would be protected against paying in rates an amount in excess of such cost.

The principle of rate-making thus prescribed for the railroads is identical with the principle which had been used for the utilities—the service-at-cost principle. The public is entitled to be served at a rea-

sonable cost; the owners of the property are entitled to a fair compensation for the use of their properties. The public which is served is obligated to pay for the service it receives an amount sufficient to cover the expenses incident to efficient operation and adequate maintenance of property, and sufficient also to provide a fair return upon the value of the property used in providing the service. The owners of the property are obligated to furnish adequate service at rates that will yield a fair return but no more than a fair return on the value of the property. A fair return on a capitalization which is equal to the value of the property is recognized both by the public and by the owners as a part of the cost of service, and there is common agreement that the rates shall be made to cover such cost and no more and no less. This method of rate-making is the service-at-cost method, whether so termed or not. It represents a policy of rate-making which, wherever administered with intelligence and thoroughness in relation to public-utility companies, has proved generally successful and satisfactory.

In the case of the utilities a single ownership of the utility property within the district was necessary, because the fact of several separately owned properties within a territory so limited as that usually served by a utility made necessary a duplication of facilities with a resultant excessive burden of cost upon the public not adequately offset by any benefits commonly ascribed to competition. In the case of the railroads, however, where the rate district is of necessity much more extensive, and where there is a greater diversity in the operating conditions which surround different parts of the industry, there is a common belief that some competition can be preserved without costly duplication of facilities, and that under such circumstances competition will afford certain advantages to which the public is entitled. In the case of the railroads, therefore, provision is made for preserving such competition as may be expected to improve the quality and decrease the cost of service and thus be consistent with the fundamental purpose of the Transportation Act. But the fact that there is to be competition instead of monopoly means that there are to be separately owned properties instead of a common ownership of all railroad property within the district. The existence of several separately owned properties obviously renders it more difficult to apply the service at cost principle of rate-making to the railroads than to the utilities. Where there is to be a diversity of ownership it is not sufficient that the total railroad income within the district shall be sufficient for a fair return upon the total value of the railroad property. It is necessary, also, that each separately owned property, if efficiently operated, shall receive a fair return upon its value. Unless this shall be the fact, there will be some railroads, which, because of insufficient income,

will be incapable of giving adequate service, and there will be some owners who will be deprived of the fair return to which they are constitutionally entitled.

The provision for consolidations was the most logical result of the rate-making method adopted by the Transportation Act. Rates are to be made for each rate district which shall produce a fair return on the aggregate value of all railroad property within the district, but without regard to the ownership of individual properties. Under this method of rate-making the public is to pay transportation charges designed to be sufficient to provide adequate transportation in all parts of the territory. In return for such payment the public is obviously entitled to receive adequate service from property wherever located in the territory. The owners of the railroad property, considered as one group, having received income sufficient to cover the cost of furnishing adequate transportation service everywhere throughout the district, are under obligation to furnish such service for which the public has paid. The ownership of all of the property in the rate-making district must be distributed among different owners, therefore, so that the owners of property which receives more than the fair return under the established rates shall have also an interest in the ownership of the parts of the property which receive less than such fair return.

### 187. A Plan of Consolidation<sup>23</sup>

BY WILLIAM Z. RIPLEY

#### TRUNK LINE REGION

1. Pennsylvania system
2. New York Central system (less Toledo & Ohio Central, Kanawha & Michigan, and Lake Erie & Western)
3. Baltimore & Ohio—Reading system (including Central of New Jersey and Monon)
4. Erie—Lehigh Valley—Wabash system (Delaware & Hudson, Wabash lines east, Bessemer & Lake Erie, etc.)
5. Lackawanna—Nickel Plate—Clover Leaf system (also includes Wheeling & Lake Erie—Western Maryland—Lake Erie & Western—Buffalo, Rochester & Pittsburgh, etc.)

#### CHESAPEAKE BAY LAKE-TO-TIDE SOFT-COAL REGION

6. Chesapeake & Ohio system
7. Norfolk & Western—Sandusky system (extended to Lake Erie)
8. Virginian—Kanawha—Toledo system (including Toledo & Ohio

<sup>23</sup>From "Consolidation of Railroads," *Interstate Commerce Commission Reports*, No. 12964 (Aug. 3, 1921), p. 469.

Central and Kanawha & Michigan)  
(Or 7 and 8 combined)

## SOUTHEASTERN REGION

9. Southern Railway system (with certain minor changes)
10. Louisville & Nashville—Atlantic Coast Line system (plus Atlanta, Birmingham & Atlantic, etc.)
11. Illinois Central—Central of Georgia system (certain details modified)
12. Seaboard Air Line system

## WESTERN TRANSCONTINENTAL REGION

13. Union Pacific—Chicago & North Western system (plus Central Pacific; also western Wabash lines, etc.)
14. Burlington—Northern Pacific—Denver & Rio Grande—Western Pacific system (Chicago Great Western; Minneapolis & St. Louis [parts], etc.)
15. Chicago, Milwaukee & St. Paul—Great Northern system (east of Chicago & Eastern Illinois and iron-ore roads)
16. Atchison, Topeka & Santa Fe system (with lines into St. Louis; Gulf Coast, etc.)
17. Southern Pacific—Rock Island system (part of St. Louis Southwestern, etc.)

## GULF REGION (WEST OF MISSISSIPPI, SOUTH OF ST. LOUIS AND

## KANSAS CITY)

18. St. Louis & San Francisco system (with Katy [part]; St. Louis Southwestern [part], etc.; Alton)
19. Missouri Pacific—Iron Mountain system (including Kansas City Southern, etc.; Chicago & Eastern Illinois, western half)

## INDEPENDENT REGIONAL GROUPS

20. New England system (except Boston & Albany and Grand Trunk lines)
21. Michigan Peninsula system (Pere Marquette, Ann Arbor, and Ironton)
22. Florida East Coast Railway

188. Truck and Water Transport<sup>24</sup>

BY FRANK H. DIXON

A problem of greater public interest, if not of greater importance, is that of the proper co-ordination of the different agencies of trans-

<sup>24</sup>Adapted from *Railroads and Government*, pp. 357-64. Copyright by Charles Scribner's Sons, 1922.

portation. We have experimented with many types of transportation in the past and doubtless there will be many new types forthcoming. But at present there are but two agencies that perform any significant service other than railroads—certain types of water and highway transportation.

For distance of 40 miles and less the motor-truck is at present in many parts of the country a serious competitor in freight traffic. In New England is threatens the very existence of the railroads. Its development has been extraordinary since the war, and only the obstacle of inadequate highways has prevented a still more phenomenal growth. That there must eventually be some sort of co-operation between motor-truck and railroad, and a tacit division of territory, seems fairly evident. But what is needed first of all is information as to costs of highway transportation properly assigned to their different categories, based upon a survey that is scientific and wholly uninfluenced by ulterior motives.

At present our information relating to motor-truck transportation is confined to a few items of operating cost, furnished by some of the larger motor-truck transportation companies. Most of the information of this character emanates from concerns manufacturing either trucks or accessories, and their literature is largely directed to a beguiling of the public into the construction of improved highways upon which they can operate untrammelled and untaxed. Nothing whatever is said of the fundamental construction costs for right of way, which the public pays, nor of the enormous rate of depreciation on the plant, which likewise comes out of the public's pocket. Toward this increasing capital investment and depreciation expense the motor-truck contributes a trifling license fee, which falls far short of meeting its public obligation. On the other hand, the railroads have acquired often at great expense their rights of way, and must maintain and improve them out of their earnings.

That the motor-truck has a permanent place in the transportation system there seems to be little doubt. It serves a real need in its direct pick-up and delivery service. While its ton-mile costs for actual transportation are far in excess of the railroad costs, it avoids the heavy terminal expense, and even when imposed with capital charges for its fair proportion of highway construction and maintenance, it will furnish a superior service for short hauls. Its success in transportation for longer distances, 100 to 300 miles, is due rather to the inefficiency of its competitor than to its own fundamental superiority, combined, of course, with its exemption from nearly all legitimate charges. What is urgently needed is a survey that will furnish

the public the facts upon which to construct a program of scientific co-operation.

This same problem arises in the case of water transportation. The Panama Canal was constructed at public expense to furnish a through water route from coast to coast in competition with the railroads, and the policy is now being strongly urged of abolishing all canal tolls on coastwise shipping. Or, again, public money is expended in the improvement of the Ohio and lower Mississippi to increase the safety and promote the regularity of river transportation, and projects are urged at national expense for the construction of adequate transfer facilities in order to make water transportation more attractive. Legislation has from time to time been enacted in an effort to prevent the more efficient railroad from taking business away from the less efficient waterway. How far is the public justified from the social and economic standpoint in continuing its policy of subsidizing other forms of transportation?

The country is under no moral obligation to confine itself to railroad transportation and scorn all other, merely because it was first in the field and has made an irrevocable investment. Much of its business could not in any case be wrested from it. That which can be taken away, if drawn off by more efficient agencies, the railroads ought to lose. But what part can the public properly play in diverting this traffic? The answer is that it is justified in making the investment in a highway or a waterway to the extent that economic results warrant. If traffic responds appropriately the investment was worth while.

But the public should see to it that it gets its return in lowered rates. Whether the motor-truck or the steamboat company is adequately taxed is a matter of public policy, but if it is not so taxed, this fact should be taken into account in the rates permitted to be charged by them. Which implies that these agencies should not be left uncontrolled on the theory that competition will give the public the lowest practicable price, but should be regulated as to their charges exactly as railroads are regulated. In other words, if the various agencies looked at from the public standpoint are placed under the control of a central authority, which assigns them their proper sphere in the co-operative scheme, and regulates their operation and their charges, much of the apparent discrimination against the railroad industry would disappear. The important point is that we need a policy, and one that is definite and constructive.

But certain it is that there must eventually be worked out, as already advocated in the case of highway transport, a program of co-operation between water and rail that will give to the public the eco-

conomic benefits to be derived from the presence of both. This involves not alone the determination whether transportation on inland canals, navigable rivers, and the Great Lakes is to be developed and, if so, to what extent, but it involves the solution of the terminal problem where transfer is made between rail and water. It is here that the good-natured tolerance of the American people has been grievously taken advantage of. At the ports, terminal facilities have come into the possession of the railroads by purchase or lease, and this possession has been used to compel exclusive shipment over the railroad lines and to effect exclusive traffic agreements with specific steamship companies. Ports have been split up into water-tight compartments by this railroad policy. No port unity has existed. In fact, the possession of monopoly privileges by a carrier has put that carrier into active opposition to all unification policies. Carriers that serve several ports have centered their affection upon one and diverted traffic there, to the detriment of other ports and the injury of the service.

This program of co-operation, contemplating, on the one hand, the association of the carriers in far-reaching policies for efficient operation, and, on the other, a scientific allocation of the transportation work of the country among the agencies best fitted to perform it, is one that is essential to the future prosperity of the country. It must be taken in charge by some central agency upon which must be conferred adequate authority.

### 189. The Way to Railroad Solvency<sup>25</sup>

BY ARTHUR T. HADLEY

The Esch-Cummins Act is in no sense a solution of the railroad problem. It left the control of rates in one hand and wages in another. If we attempted to regulate banks by two independent commissions, one of which should fix the rates of discount which they could charge the borrowers while the other determined the rates of interest they must pay their depositors, everybody would see that this was a dangerous system; that it threatened the solvency of existing banks, and would frighten away the capital that ought to go into banking business if the credit of the country is to be properly developed. Yet this is precisely what we do in regard to our railroads. The rates they shall charge are determined by the Interstate Commerce Commission; the wages they shall pay, by the Railroad Labor Board.

Every business man knows that rates and wages must move hand

<sup>25</sup>Adapted from "Factors in the Railroad Situation," *Yale Review*, XII, 465-68. Copyright, 1924.

in hand. The extent to which a manufacturer can reduce prices to develop business depends largely upon the scale of wages he has to pay; and, conversely, the amount of wages which he can pay depends upon the prices he can charge for his goods. If the prices which he can get are controlled by a board which looks chiefly at the needs of his customers, and the wages which he must pay by a board which looks primarily at the requirements of his laborers, the margin between receipts and expenses gets too small to attract into the business the capital necessary for paying the laborers and producing the goods. This is just what is happening in railroad business today; and the first step out is to put the oversight of both rates and wages into the hands of one board, which can be held responsible for results. With centralized regulation of this kind, we may hope to secure adequate facilities, continuous service, and reasonable rates; without it we are bound to pursue each one by turns, to the neglect or sacrifice of the others, and to make the railroads the less fitted to serve the public the more we try to regulate them.

Such a board can produce results in two ways: by the publicity of its findings, and by the authority which the law may give it to enforce its decisions. How much authority should be given is an open question. It may be taken for granted that any national railroad board today would be given some powers beyond the power to report. The all-important thing is that any authority which the board has should extend equally over the representatives of the stockholders and the representatives of the laborers. Anything in the Clayton Act or in the anti-trust legislation of the United States which allows one group of men or their leaders to do things with impunity which could result in fine or imprisonment for members of another group must be swept away. Removal of such special legislation from the statute-book is not only necessary to enable the board to protect the public; it should also, in the long run, help the conservative men among the laborers themselves. For any law which exempts one class of men from penalties for its violation encourages the more reckless members of that class to take advantage of this immunity, to the detriment of public convenience and often of public order.

To work effectively, a railroad board of the kind proposed would have to be radically different in its character, its outlook, and its training from what the Interstate Commerce Commission now is. This is not intended as a criticism of the members of the Commission, who are a remarkably high-minded, hard-working, and patriotic body of public officials. It is simply a recognition of the fact that the things which most need to be done today to restore our railroads to the condition of efficiency which they enjoyed fifteen years ago are those



which the Interstate Commerce Commission has not done, and which most of its members have not been trained to do. From the very beginning, the Commission has been overworked. It has had two sets of duties imposed upon it: the general duty of informing itself as to the manner in which railroad business is conducted, and of making reports and recommendations to Congress on matters which it considered important; and the special duty of investigating complaints against the carriers and assisting the complainants to obtain redress when their claims were well founded.\* The number and pressure of such complaints has been so great that the Commission is given scant time for the fulfilment of its broader obligations toward Congress and the public; particularly as few of its members have had practical experience of the difficulties and perils of railroad management.

A group of men who are largely occupied in looking at rate questions *ex parte* from the standpoint of individuals, and who have not as a rule had previous training in railroad administration or economics, is obviously not fitted to deal with a situation like that which confronts us. As an adjunct to our commerce courts it can continue to do great service. But to supervise our railroad policy as a whole, we need a body of quite another stamp. To prevent the public interest from being sacrificed to the immediate demands of groups of shippers or laborers or bankers, we must have a body of men with exceptional previous knowledge and understanding of railroad business in its various aspects; men who can see the public duties and needs and dangers of our railroad system as a whole in the same clear light in which the Federal Reserve Board has seen the public duties and needs and dangers of our banking system. We should give railroad managers the same chance that we give managers in every other line of business which has large and complex public obligations—the chance of dealing with officials who before their appointment have had either actual experience in the conduct of the business or special knowledge of the circumstances under which it is conducted. Thus and thus only can we maintain the efficiency and solvency of our transportation system on the same high level as the efficiency and solvency of our credit system.

#### 190. Regulation on Trial<sup>26</sup>

BY I. LEO SHARFMAN

It is generally agreed that private ownership and operation is now being subjected to final trial. In spite of the strong American senti-

<sup>26</sup>Adapted from *The American Railroad Problem*, pp. 457-63. Copyright by the Century Co., 1921.

ment against collective economic enterprise, it is becoming the consensus of opinion that, unless the carriers after a reasonable opportunity prove themselves capable of providing an adequate transportation service, the railroad systems are bound to be nationalized.

This tendency is very significant. It discloses a practical recognition, quite unconscious in many quarters, that the constantly recurring difficulties of the railroad situation may be due, basically, to the anomalous policy of permitting the public highways to serve as a source of private gain. In other words, the experience of almost a century in the adjustment of railroad relationships in coming to create a conviction that private ownership may be essentially inconsistent with the satisfactory performance of the transportation function. The established dogmas of the natural superiority of private initiative, and of the inherent inefficiency of public effort, in industrial undertakings, are rapidly yielding to the pressure of actual conditions.

The intelligent observer is being increasingly confronted with the query as to whether the proper maintenance of the transportation system is not fundamentally a national concern, the fruits of which ought to be enjoyed, and the difficulties of which ought to be borne, entirely and directly by the American people. The question of solving the railroad problem satisfactorily is assuming the guise of a challenge to American democracy; and those who persist in retaining their faith in the efficacy of American institutions are loath to admit that our people are incapable of undertaking and administering effectively such a great public enterprise as would be involved in the nationalization of the railroads.

The provision of an adequate transportation machine, under a system of private ownership and operation, involves a very difficult adjustment between private rights and public interests. Railroad plant and equipment and administration must undergo constant development, so that operating technique may be progressively advanced, and ample facilities provided for the growing needs of the country. This involves the provision of such a flow of transportation income as will yield sufficient revenue to support railroad credit, without imposing an undue financial burden upon the public; and such supervision of the operating activities of the carriers as will encourage efficiency, without undue interference with the details of management. These results cannot be accomplished without an extensive system of public regulation. Operating unity must be stimulated, the acquisition of necessary facilities ordered, and service standards enforced; the relativity of rates must be fixed, and joint charges apportioned; accounting systems must be prescribed, security issues controlled, property valuations determined, and financial returns limited; wages

must be adjusted, hours of employment prescribed, working conditions formulated, and labor controversies composed. A long experience has demonstrated that unless these regulative functions are effectively exercised, the public interest is seriously jeopardized; this realization accounts for the intensive development of government regulation. Inadequate regulation would constitute the primary basis of the need of railroad nationalization.

But with every approach toward effective public control, there is progressive encroachment upon the independence of the owners and managers of the railroads, and a corresponding destruction of the incentives to private initiative. Financial regulation may become so strict as to remove all attraction for the railroad field from investors; and operating supervision may become so extensive as to render railroad executives powerless to exercise constructive enterprise. Under such circumstances, the demand for nationalization may be pressed as vigorously by the natural supporters of private management as by the foes of our traditional system. Insistence upon the continuance of private ownership and operation, in face of such conditions, would but constitute a stubborn stand for the principle of private enterprise in the abstract, regardless of the realities of the railroad situation.

There is much reason to believe that the American railroad problem is approaching some such status. Both the railroads and the people are finding existing adjustments unsatisfactory. In spite of the thousands of idle cars and the immense surplus of carrying capacity accompanying the industrial depression of 1920 and 1921, it is generally recognized that railroad plant and equipment are insufficiently developed for the traffic burden normally imposed upon them. In spite of the extremely high level of prevailing transportation charges, the roads are unable to maintain the stability of their securities or the flow of new capital, and in some instances are even incapable of meeting their fixed financial obligations. In spite of increasing efforts in recent years to improve the conditions of the railroad employees, cooperative relationship between the management and the men is at a very low ebb. These maladjustments are clearly inimical to the general welfare.

At the same time the scheme of public regulation has become so extended as to touch very intimately many of the distinctive tasks of management. The government is now clothed with authority, in case of necessity, to order the utilization of railroad plant, equipment, and facilities, irrespective of ownership, in the interest of common transportation needs; to control traffic and reroute shipments in order to prevent congestion; to supervise building programs, to arrange con-

solidations, and to regulate security issues and capital expenditures; to restrict transportation revenue to a reasonable return, and to recapture part of all excess earning for the public benefit; to adjust controversies as to wages, hours, and working conditions, and thereby virtually to prescribe a predominating element of the operating expenses of the carriers.

It is very questionable, therefore, whether relief can be expected through further extension of the scope of regulation. The continuance of private ownership must be accompanied by a reasonable degree of independence in management. Primary responsibility for operating efficiency must be centered either in the Government or in the railroads. The tendency of recent developments has been to deny the public the full advantage of either vigorous private enterprise or responsible public effort. Paradoxical as it may seem, therefore, the permanence of the existing adjustment may depend very largely upon the absence of necessity for utilizing the more stringent provisions of the Transportation Act.

If the carriers, for example, will voluntarily subordinate their private rights in railroad plant and equipment to general transportation needs, the danger of congestion, as business expands, will tend to be eliminated; but if the Interstate Commerce Commission, because of traffic emergency, is repeatedly compelled to resort to its extraordinary powers over service and facilities, the managerial independence of the roads will be seriously undermined. And unless the railroads accept the plan of consolidation now being formulated by the Commission, it will doubtless be deemed essential to render the extensive emergency powers over traffic and "car service" continuously applicable, in order to secure the benefits of informal operating unity. Such development must ultimately bring public ownership.

Similarly, unless the traditional public confidence in the efficiency of private enterprise is clearly justified by the carriers, the rate features of the new law may fail either to protect the public against exorbitant charges or to support the credit of the roads against inadequate revenues. Under conditions of inefficiency, even a "restrictive" rate policy may be too liberal; and a "liberal" rate policy may prove futile. Private management will neither desire, nor find it possible, to continue, in face of serious financial embarrassment. In like manner, unless the railroads and their employees show themselves capable of settling most of their differences through private conference, the powers of the Railroad Labor Board will be found insufficient to cope with constantly recurring emergencies, and the authority of this agency of voluntary conciliation will, in the public interest, have to be

made mandatory. But the imposition of compulsory adjustments of labor relationships—because such adjustments would involve public dictation of managerial policy and governmental denial of labor's "rights"—would tend to bring the railroads another step nearer to nationalization.

The mere expansion of regulatory principles, therefore, and the mere development of administrative machinery, cannot be relied upon to solve the American railroad problem. Only a sincere recognition of the public character of the railroad industry by the railroads and their employees, and an intelligent perception by the Government of the necessity of conserving the incentives to efficiency and removing the obstacles to initiative, can save our system of private ownership and operation. The carriers must demonstrate in practice that they are consciously performing a public function. This means that they must willingly submit to a limitation of financial return, and recognize their trusteeship of excess earnings; that they must withdraw such opposition to cooperative arrangements as is grounded merely in their individual interests; that they must realize their public responsibility in the matter of operating efficiency; that they must subordinate their private claims to the general interest in the adjustment of labor relationships. Similarly, the transportation workers must definitely accept the necessity of curtailing their absolute freedom of action in the railroad industry. Unless they assume responsibility to the public, they will forfeit the good will and support of the public. Finally, due restraint being exercised by the carriers and their employees, there must come a clear recognition by the people and their political representatives that private ownership cannot be maintained unless railroad investment is adequately protected against confiscation, and sufficient transportation revenue is made available to attract new capital for necessary extensions and improvements; and that private operation cannot be made to yield the fruits of constructive initiative and vigorous administration unless public interference with the tasks of management is reduced to a minimum.

The regulative method, as well as corporate ownership and private operation, is now undergoing its crucial test.

## VIII

### THE PROBLEM OF CAPITALISTIC MONOPOLY

Corners, rings, patents of monopoly, pools, cartels, trusts, holding companies, "Gory dinners," interlocking directorates, "communities of interest," "gentlemen's agreements," closed shops, codes of "professional ethics"—such terms serve to emphasize the venerable age, the cosmopolitan character, and the motley form of the monopoly problem. It is as old as industrial society and as new as the latest court decision. Other ages have met this "hydra-headed monster"; but they have possessed neither a collection as varied as ours nor such a prize specimen as our "capitalistic monopoly." This for us is the real monopoly. The "corner" is an aspect of speculation. Copyrights and patents exist by grace of the state. The "natural" monopolies of such things as gas, water, and telephone service, and even of forest lands and iron deposits, present much the same aspects and give rise to much the same problems as the railroads. But it is otherwise with "capitalistic monopoly," a phenomenon of modern industrialism, an offshoot of the machine system.

To act with wisdom we must first determine whether so "unnatural" and so obvious a thing is "inevitable." To do this we must carefully consider the "conditions of monopolization." But the institution is new; its life history does not as yet stand revealed in its entirety; our experience is limited; and our view is too close for perspective. Our answer is, therefore, hesitating. However, there seem to be three "groups of forces" which have conspired to produce this phenomenon. First, the machine process must be charged with partial responsibility. It has made large-scale production possible; it has caused industries of tremendous size to operate in a "stag of increasing returns"; it has developed in the corporation an impersonal form of business organization; it has concentrated in the hands of the pecuniarily efficient few huge aggregates of wealth; and in many lines it has reduced the number responsible for production to a small handful who can know each other personally and among whom a group spirit can develop. Even if monopoly and large-scale production are distinct economic phenomena, the problem of "capitalistic monopoly" arises only where wealth is concentrated. Second, the high rate of development in the industrial system cannot completely escape responsibility. New technique is often forced into use before old technique has paid for itself. The development of demand in our constantly expanding market has had the most vacillating course. Under competition and independent action of rival producers the market has experienced alternate dearth and glut. These uncertainties, seriously threatening profits, and even solvency, have been greatly increased by the violent and unpredictable rhythm of the business cycle. Competing producers have thus been compelled "to get together." Third, "artificial" conditions have contributed their influence to the transformation. The "concentration of cash" and the "restriction of credit," the fickleness and special favors of the tariff, and the clever "manipulation" of railway rates have contributed to the general result. Were we able properly to impute responsibility to these various "forces," we should perhaps know what to do. Were responsibility entirely upon those last mentioned, the monopoly problem would resolve itself into such problems as the money trust, the tariff, and railroad rates. Were sole responsibility upon the second, our question would become a mere aspect of the problem of the economic cycle. Only the first directly promises an independent problem. Yet, were the causes wholly artificial, a removal of them would not solve the problem; their influence has been too organic and too wide-reaching for that. There is a

monopoly problem, involving these various factors, yet far more comprehensive than a mere aggregation of them.

Public attention seems to be directed very largely to some few minor aspects of this larger problem. It concerns itself with monopoly price, the use of "unfair competitive methods," and the "power" of big business in politics. Only vaguely is it seen that the institution of monopoly is intimately associated with the stratification of society, the concentration of wealth, the distribution of income, and other aspects of social development. Very little attention is given to the institutional aspects of monopoly; its influence in the determination of the kind of a society we would like to realize; its influence upon the ethics underlying distribution; the effect it is likely to have upon the attempt of class- and group-conscious labor to incorporate their interests into the institutional system; its effect upon the distribution of opportunity, and similar questions. But all these are important aspects of the larger problem.

In our partial attempt to control monopoly we have used very largely the agencies of the state. The law has given the *form* of monopoly organization a merry chase. Perhaps "the complete merger," now the popular style, is a permanent garb rather than a temporary disguise. In that event, our attentions may have been justified in putting the problem in terms in which it can be reached. The application of the Sherman law has doubtless given us the beginning of a "standard of reasonableness" in terms of which the conduct of large business units can be judged, despite the obvious fact that trusts have waxed fat on the invigorating tonic of dissolution. By more sharply defining "unfair competition," the Clayton bill should raise the "plane" of industrial rivalry. The promises of the Trade Commission are vague and indefinite as yet, though they bristle with possibilities.

But as yet the real problem of monopoly has not been solved. What shall we do about it all? It is possible that monopoly is a mere "passing phase" of a larger industrial movement, born of competition, and with a short span of life. It may be that legislation and administration can achieve a "restored" régime of unimpeded competition, even if such a régime never existed. Or it may be that monopoly is "inevitable," and that all we can do is to regulate it before it regulates us.

What we most need is a far-sighted vision and patience carefully to calculate anticipated gains and losses. That "competition is wasteful" does not make out a case for regulated monopoly. The costs of regulation must be balanced against the costs of waste. But regulation once started is likely to be carried to unforeseen and perhaps unwarranted lengths, both in the minuteness of its control and in the number of industries affected. These costs incident to this extension must find a place in our calculation. Our judgment, too, must not be too immediate. Our capacity for development may be quite differently utilized under régimes of monopoly and competition. We know, for example, that an incentive to monopoly has been a desire to escape the rigors of changing technique. Is it not, therefore, more than possible that monopolistic industries will introduce technical improvements much less rapidly than competitive industries? Is it not further possible that new technique may not succeed in getting itself invented? The question must be settled by a long-time calculation of relative gains and sacrifices. But this is not the whole, but only the economic aspect of the larger problem of monopoly. It must be subordinated to the more general question, Are the general social tendencies inherent in regulated monopoly more compatible with our realizable social ideals than those implicit in a system of competition?

This is the beginning of the problem. If our decision favors a restoration of a competitive society, we are face to face with the problem of ways and means. If we decide in favor of regulated monopoly, we must determine, perhaps as we go, the extent to which monopoly shall be recognized, the means and extent of regulation, and the "good of it all." The problem awaits a progressive solution.

## A. IS MONOPOLY INEVITABLE?

## 191. The Perennial Problem of Monopoly

a) *An Early Corner in Grain*<sup>1</sup>

And Joseph went out from the presence of Pharaoh, and went throughout all the land of Egypt. And in the seven plenteous years the earth brought forth by handfuls. And he gathered up all the food of the seven years which were in the land of Egypt, and laid up the food in the cities: the food of the field, which was round about every city, laid he up in the same. And Joseph laid up grain as the sand of the sea, very much, until he left off numbering; for it was without number.

And the seven years of plenty, that was in the land of Egypt, came to an end. And the seven years of famine began to come, according as Joseph had said: and there was famine in all lands; but in all the land of Egypt there was bread. And when all the land of Egypt was famished, the people cried to Pharaoh for bread: and Pharaoh said unto all the Egyptians, Go unto Joseph: what he saith unto you, do. And the famine was over all the face of the earth: and Joseph opened all the storehouses, and sold unto the Egyptians; and the famine was sore in the land of Egypt. And all countries came unto Egypt to Joseph to buy grain, because the famine was sore in all the earth.

And there was no bread in all the land; for the famine was very sore, so that the land of Egypt and the land of Canaan fainted by reason of the famine. And Joseph gathered up all the money that was found in the land of Egypt, and in the land of Canaan, for the grain which they bought; and Joseph brought the money into Pharaoh's house. And when the money was all spent in the land of Egypt, and in the land of Canaan, all the Egyptians came unto Joseph, and said, Give us bread: for why should we die in thy presence? for our money faileth. And Joseph said, Give your cattle; and I will give you for your cattle, if money fail. And they brought their cattle unto Joseph; and Joseph gave them bread in exchange for the horses, and for the flocks, and for the herds, and for the asses: and he fed them with bread in exchange for all their cattle for that year. And when the year was ended they came unto him the second year, and said unto him, We will not hide from my lord, how that our money is all spent; and the herds of cattle are my lord's; there is naught left in the sight of my lord, but our bodies and our lands: wherefore should we die before thine eyes, both we and our land?

<sup>1</sup> From Gen. 41:46-49, 53-57; 47:13-22 (800 B.C.).



buy us and our land for bread, and we and our land will be servants unto Pharaoh: and give us seed, that we may live, and not die, and that the land be not desolate.

So Joseph bought all the land of Egypt for Pharaoh; for the Egyptians sold every man his field, because the famine was sore upon them: and the land became Pharaoh's. And as for the people he removed them to the cities from one end of the border of Egypt even to the other end thereof. Only the land of the priests bought he not.

b) *A Vindication of Philosophy*<sup>2</sup>

BY ARISTOTLE

It would be well also to collect the scattered stories of the ways in which individuals have succeeded in amassing a fortune; for all this is useful to persons who value the art of making money. There is the anecdote of Thales the Milesian and his financial device, which involves a principle of universal application, but is attributed to him on account of his reputation for wisdom. He was reproached for his poverty, which was supposed to show that philosophy was of no use. According to the story, he knew by his skill in the stars while it was yet winter, that there would be a great harvest of olives in the coming year; so, having a little money, he gave deposits for the use of all the olive presses in Chios and Miletus, which he hired at a low price because no one bid against him. When the harvest-time came, and many wanted them all at once and of a sudden, he let them out at any rate which he pleased, and made a quantity of money. Thus he showed the world that philosophers can easily be rich if they like, but that their ambition is of another sort. He is supposed to have given a striking proof of his wisdom, but, as I was saying, his device for getting money is of universal application, and is nothing but the creation of a monopoly. It is an art often practiced by cities when they are in want of money; they make a monopoly of provisions.

c) *Caveat Emptor*<sup>3</sup>

A pious Brahmin, it is written, made a vow that on a certain day he would sacrifice a sheep, and on the appointed morning he went forth to buy one. There lived in his neighborhood three rogues, who knew of his vow and laid a scheme for profiting by it.

The first met him and said, "Oh, Brahmin, wilt thou buy a sheep? I have one fit for sacrifice." "It is for that very purpose," said the holy man, "that I come forth this day." Then the imposter opened a

<sup>2</sup>From *The Politics*, I, 11:7-10 (357 B.C.); translated by B. Jowett.

<sup>3</sup>Date not known.

bag and brought out of it an unclean beast, an ugly dog, lame and blind. Thereupon the Brahmin cried out, "Wretch, who touchest things impure, utterest things untrue, callest thou this a sheep?" "Truly," answered the other, "it is a sheep of the finest fleece, and of the sweetest flesh. Oh, Brahmin, it will be an offering most acceptable to the gods." "Friend," said the Brahmin, "either thou or I must be blind."

Just then one of the accomplices came up. "Praise be the gods," said the second rogue, "that I have been saved the trouble of going to market for a sheep! This is just such a sheep as I want. For how much wilt thou sell it?" When the Brahmin heard this his mind wavered to and fro like one swinging in the air at a holy festival. "Sir," said he to the newcomer, "take heed what thou doest, this is no sheep, but an unclean cur." "Oh, Brahmin," said the newcomer, "thou art either drunk or mad."

At this time the third confederate came near. "Let us ask this man," said the Brahmin, "what the creature is, and I will stand by what he shall say." To this the other agreed, and the Brahmin called out, "Oh, stranger, what dost thou call this beast?" "Surely, oh Brahmin," said the knave, "it is a fine sheep."

Then the Brahmin said, "Surely, the gods have taken away my senses," and he asked pardon of him who carried the dog and bought it for a measure of rice and a pot of ghee, and offered it up to the gods, who, being wroth at this unclean sacrifice, smote him with a sore disease in all his joints.

d) *An Early Use of Class Price*<sup>4</sup>

BY JOHN GOWER

Wouldst thou have closer knowledge of Trick the Taverner? Thou shalt know him by his piment, his clerée, and his new ypcras, that help to fatten his purse when our city dames come tripping at dawn to his tavern as readily as to minister or to market. Then doth Trick make good profit; for be sure that they will try every vintage in turn, so it be not mere vinegar. Then will Trick persuade them that they may have Vernage, Greek wine, and Malvesie if they will but wait; the better to cajole them of their money, he will tell them of divers sorts—wines of Crete, Ribole, and Roumania, of Provence, and Monterosso; so he boasteth to sell Riviera and Muscadel from his cellar, but he hath not a third part of all these; he nameth them but for fashion's sake, that he may the better entice these

<sup>4</sup>Adapted from *Mirour de l'Omme* (1376-79), ll. 421 ff. Translation in Coultou, *A Mediaeval Garner*, pp. 577-78.

dames to drink. Trust me, he will draw them ten sorts of wine from one barrel, when once he can get them seated in his chairs. Better than any master of magic Trick knoweth all the arts of the wine-trade; all its subtleties and its guile. He is crafty to counterfeit Rhine wine with the French vintage; nay, even such as never grew but by Thames shore, even such will he brisk up and disguise, and baptize it for good Rhenish in the pitcher: so quantily can he dissemble, that no man is so cautious but Trick will trick him in the end.

c) *In the Merrie England of Queen Bess*<sup>5</sup>

BY DAVID HUME

The active reign of Elizabeth had enabled many persons to distinguish themselves in civil or military employments; and the queen, who was not able, from her revenue, to give them any rewards proportional to their services, made extreme use of an expedient employed by her predecessor. She granted her servants and courtiers patents for monopolies, and these patents they sold to others, who were thereby enabled to raise commodities to what price they pleased, and who put invincible restraints upon all commerce, industry, and emulation in the arts. It is astonishing to consider the number and importance of those commodities which were thus assigned over to patentees. Currants, salt, iron, powder, cards, calfskins, fells, pouldavies, ox shin-bones, train-oil, lists of cloth,\*pot-ashes, aniseeds, vinegar, sea-coals, steel, aqua-vitæ, brushes, pots, bottles, saltpetre, lead, accidences, oil, calamine-stone, oil of blubber, glasses, paper, starch, tin, sulphur, new drapery, pilchards; transportation of iron ordnance, of beer, of leather; importation of Spanish wool, of Irish yarn. These are but a part of the commodities which had been appropriated by monopolists. When this list was read in the House, a member cried, "Is not bread in the number?" "Bread!" said everyone, with astonishment. "Yes, I assure you," replied he, "if affairs go on at this rate, we shall have bread reduced to a monopoly before next Parliament." These monopolists were so exorbitant in their demands that in some places they raised the price of salt from sixteen pence a bushel to fourteen or fifteen shillings. Such high profits naturally begat intruders upon their commerce; and, in order to secure themselves against encroachment, the patentees were armed with high and arbitrary powers from the council, by which they were enabled to exact money from such as they thought proper to accuse of interfering with their patent.

<sup>5</sup>Adapted from *The History of England* (1759), IV, chap. xlv.

## 192. The Perennial Protest against Monopoly

a) *A Proverb about Corners*<sup>6</sup>

The liberal soul shall be made fat;  
 And he that watereth shall be watered also himself.  
 He that withholdeth grain, the people shall curse him;  
 But blessings shall be upon the head of him that selleth it.

b) *The Ethics of Monopoly*<sup>7</sup>

BY MARTIN LUTHER

There are some who buy up altogether the goods or wares of a certain kind in a city or country, so that they alone have such goods in their power, and then fix prices, raise and sell as dear as they will or can. The rule is false and unchristian that anyone sell his goods as dear as he will or can; more abominable still is it that anyone should buy up the goods with this intent. Which same, moreover, imperial and common law forbids and calls monopoly; that is, selfish purchases which are not to be suffered in the land and the city, and princes and rulers should check and punish it if they wish to fulfil their duty. For such merchants act just as if the creatures and goods of God were created and given for them alone, and as though they might take them from others and dispose of them at their fancy.

c) *The Pests of Monopoly*<sup>8</sup>

BY SIR JOHN CULPEPPER

These, like the frogs of Egypt, have gotten possession of our dwellings, and we have scarcely a room free from them. They sip in our cup; they dip in our dish; they sit by our fire; we find them in the dye-vat, washing-bowl, and powdering-tub. They share with the butler in his box; they have marked and sealed us from head to foot; they will not bate us a pin.

d) *The Inexpediency of Monopoly*<sup>9</sup>

BY ADAM SMITH

Though some exclusive privileges arise from nature, they are generally the creatures of the civil law. Such are monopolies and all

<sup>6</sup>Prov. 11:25-26 (350 B.C.).

<sup>7</sup>Adapted from the address on "Trade and Usury" (1524), printed in the *Open Court*, XI, 27; translated by W. H. Carruth.

<sup>8</sup>Quoted in Hirst, *Monopolies, Trusts, and Kartells*, p. 20.

<sup>9</sup>Adapted from *Lectures on Justice, Police, Revenue and Arms* (1763), pp. 129-30; edited by Edwin Cannan.

privileges of corporations, which, though they might once be conducive to the interest of the country, are now prejudicial to it. The riches of the country consist in the plenty and cheapness of provisions, but their effect is to make everything dear. When a number of butchers have the sole privilege of selling meat, they may agree to make the price what they please, and we must buy from them whether it be good or bad. Even this privilege is not of advantage to the butchers themselves, because the other trades are also formed into corporations, and if they sell beef dear they must buy bread dear. But the great loss is to the public, to whom all things are rendered less comeatable, and all sorts of work worse done; towns are not well inhabited, and the suburbs are increased.

*e) Monopoly Indefensible*<sup>10</sup>

We declare that a private monopoly is indefensible and intolerable, and pledge the Democratic Party to vigorous enforcement of existing laws against monopoly and illegal combinations and to the enactment of such further measures as may be necessary.

## B. CONDITIONS OF MONOPOLIZATION

### 193. The Failure of Competition<sup>11</sup>

BY HENRY W. MACROSTY

Modern industry is essentially speculative in character. It has been said, "It is for the prospective, not for the actually existing, demand that a producer has chiefly to provide. Our warehouses and shops overflow with goods that have been produced before being sold, and with a view to their being sold. They have been produced to meet the prospective demand, and to measure that accurately is not in the power of the most able and prudent man."<sup>12</sup> This statement applies not only to goods for consumption, but also to goods, such as machinery, which are intended to aid production. The community is interested only in the accommodation of the whole supply to the total demand, but it is to the interest of each individual manufacturer to secure for himself as large a share of that demand as possible, without regard to the probability of there being an over-supply. To secure custom he must underbid his competitors; to make the low price profitable he must reduce his expenses of produc-

<sup>10</sup>Adapted from *Platform of the National Democratic Party*, June 29, 1924.

<sup>11</sup>Adapted from *Trusts and the State*, pp. 103-19. Published by E. P. Dutton & Co. and G. Richards & Co., London, 1901.

<sup>12</sup>Mongradien, *The Displacement of Labor and Capital* (1886), p. 25.

tion. There is thus a permanent stimulus to the improvement of organization and to the invention of new processes; but as soon as these advantages are gained they are immediately lost by competition, and the enhanced profits are either dissipated in expenses or handed over to the consumer. The old economists justified competition on this very ground, that the desire for private gain drove capitalists to improve their industry, and then compelled them to part with their profits to the general public, but they arrived at this only by neglecting all the other aspects of the problem.

The aim of trade is to make profits; the object of making profits, according to commercial philosophy, is to make savings. The reinvestment of savings in new industrial equipment is a necessary condition to industrial progress. Thus industrial development goes hand in hand with an increase in industrial equipment.

This steady tendency to increase the productive machinery of the country necessarily intensifies competition. But if "competition is the life of trade," it is the death of business. The newcomers, equipped with the newest methods and the latest discoveries, produce more cheaply than their predecessors, and a race for life follows, in the course of which more and more goods at lower prices are thrown on the market. If the low prices stimulate fresh demand, general benefit ensues, but the rate of production can govern consumption only within narrow limits. Owing to the great capacity of modern machinery, the operatives employed by the investment of savings can consume only a very small proportion of their product. An outlet must be found either in the discovery of new markets, in countries yet to be developed, or in increased home consumption. The former involves questions of foreign policy and international competition, and must gradually diminish in importance as a solution. As for the latter, the inequitable distribution of wealth and the permanent maladjustment of purchasing and producing power necessarily create an incalculable disorganization of industry, and profoundly increases the innate inability of the competitive system to balance demand and supply.

In a limited market it is possible for the producer to forecast the probable demand and to estimate the capacity of his competitors to meet it; but in proportion as the markets widen, both these necessary conditions of success, and especially the latter, become more difficult of attainment. A farmer in Essex finds it beyond his power to reckon up the probable produce of a Dakota wheat crop or the chances of a scarcity in Russia before he decides what acreage he will lay down in corn, and yet his inability may land him in the bankruptcy court. Scarcely less difficult is it for the Sheffield manu-

facturer to foretell the probability of, say, a raid on rails by the Carnegie combination. What is true of normal conditions of trade holds good with reference to an abnormal demand, and the efforts to meet the latter generally have far-reaching and destructive consequences.

The inability of the capitalist system to control its own productivity must increase with an increase in the complexity of the organization. The influence of machinery on production deserves particular attention. Every invention causes displacement, both of capital and of labor; and while its benefits are distributed over the whole community, its costs must be borne by individual capitalists and laborers. In America the invention of new labor-saving machines proceeds so fast that machinery becomes antiquated before it is worn out, and the workshops are in a constant state of transition. Usually capital suffers less than labor, because of its greater fluidity and its ability to recoup itself from the increased productivity of the inventions. Large businesses suffer less than small, as their powers of adaptation are greater, and therefore small concerns tend to go to the wall. But loss there usually is, and one generation of producers is sometimes ruined for the benefit of posterity.

To sum up, we see that business under capitalism, working through competition, shows an inherent inability to equate supply to demand, which increases as the market widens. The savings of profits leads to overinvestment in productive appliances, from which follow overproduction, fall in prices, and depression. The depression displaces labor, and the process increases the irregularity of employment. Reduction of profits also compels economies in manufacture and transport, the greater employment of improved machinery, and the invention of new processes. The increased productivity of capital causes a still greater reduction in prices and profits, and increases the tendency toward disorganization. It is from this situation that combination has been adopted as a means of escape.

#### 194. The Incentive to Monopoly<sup>13</sup>

BY CHESTER W. WRIGHT

We have in modern capitalistic industry tendencies toward a widening of the market with increased localization and integration and a steadily enlarging scale of production accompanied by a growing fierceness of competition. The larger the concerns, the smaller their number, the greater their resources for carrying on a fight, the

<sup>13</sup>Adapted from "The Trust Problem—Prevention versus Alleviation," *Journal of Political Economy*, XX (1912), 578-81.

bigger the prize which goes to the winner, the fiercer becomes the competition and the more excessive its wastes. Add to this the difficulties arising from the small margin of profit, the more complicated and prolonged industrial processes, the wide market, and the large use of fixed capital—and finally add the extra gain which comes from the power of monopoly to extort exorbitant prices, and one understands the forces which are fundamentally responsible for the modern trust movement. The reason for many trusts may be found in more immediate causes, which, for the very reason that they are more immediate and obvious, have often appeared, to the public eye at least, as even more important.

It is doubtless true that a considerable number of trusts owe their origin to the profits which it was expected would accrue to the promoter who undertook the task of organizing the trust. This was especially the case in the promotion which went on during the years 1898 and 1901, when the money market and other conditions were particularly favorable; but it is not likely that we shall soon see a recurrence of such an era. There can be no question, however, that the lax corporation laws, many of which appear to have been especially designed to meet the promoter's needs, did enable him to make certain gains and to dispose of the securities put out at a somewhat higher price than would otherwise have been possible. Still, it must be borne in mind that the more fundamental causes for the growth of trusts were really at the bottom of even these gains.

Most prominent among the second group of more immediate causes for the growth of trusts—those which I call special privileges—are railroad favors, tariff duties, and patent rights. In former years railroad favors of one sort or another were doubtless given to many of the trusts. From time to time announcements have been made that these discriminations had been abolished; but frequently, as some later special investigation or prosecution revealed the facts, it has been found that they still exist. However, the evil is undoubtedly much less frequent than formerly and today is at best but a minor factor. The tariff is probably of more importance as an aid to the trusts, though I am inclined to believe that its influence has been considerably exaggerated. Probably its chief effect is in enabling trusts, most of which would exist in any case, to exact somewhat higher prices for their products than would otherwise be possible. It should be noted, however, that it is the over-protective tariff which offers the chief incentive for the formation of trusts. It is because the duties are often so much higher than is necessary to maintain the industry that overproduction ensues and the domestic manufacturers



are led to combine so as to secure the high profits made possible by the tariff. To enact duties of this character is to do nothing less than to offer a reward for forming a trust. The importance of patent rights as a basis for trusts probably deserves more attention than it has received.

The third group of minor causes for the growth of trusts includes certain methods of competition, notably factor agreements and discriminating prices. Under such agreements the manufacturer or wholesaler may sell his product on condition that the price which he fixes be absolutely maintained, or on condition that the retailer shall not deal in the competing product of any rival, or perhaps that he shall not sell such rival product below a certain price. Any concern putting out a product for which there is a considerable demand can use this system, especially the latter form, against its rivals with tremendous power and effectiveness. The practice of discriminating prices is also a powerful weapon for building up and maintaining monopoly control.

Closely connected with this is the power exercised by control of credit which is sometimes declared to be an important weapon of the trust. On this point it is impossible at present to speak decisively. Information is very difficult to obtain and usually conflicting. There is some reason to believe that a large concern with the close financial alliances which ordinarily accompany it may occasionally find itself in a position where it can control the credit obtainable by a rival at some crucial moment and through the power thus obtained may force that rival to capitulate, often at a heavy loss, as in the case of the Pennsylvania Sugar Refining Company. There may not be a money trust but apparently there are times when the power of centralized control over large masses of capital proves of great advantage to a big corporation.

#### 195. Large-Scale Production and Monopoly<sup>14</sup>

BY CHARLES J. BULLOCK

In favor of the proposition that the tendency of large-scale production is to pass over into monopoly, three general lines of argument may be distinguished: (a) the contention that a consolidated enterprise possesses advantages over independent companies in producing and marketing its goods; (b) the claim that mere mass of capital confers powers of destructive warfare so great as to deter possible competition from entering the field; (c) the belief that modern com-

<sup>14</sup>Adapted from "Trust Literature: A Survey and a Criticism," *Quarterly Journal of Economics*, XV, 190-210. Copyright, 1901.

petition between large rival establishments, representing heavy investments of fixed capital, is injurious to the public, ruinous to the producers, and in its final outcome self-destructive. As our discussion proceeds it will become evident to the reader that all of these arguments can be employed, with consistency, only by those who believe that the competitive régime is to be replaced by an era of monopoly.

First in this list is the contention that a consolidated concern is a more efficient agent of production and exchange. Thus it is claimed that trusts, by filling orders from the nearest plant, can effect a great saving in cross-freights. Data upon this question are available in the recent Bulletin of the Department of Labor. Of the forty-one combinations reporting, twenty-seven failed to answer this question, nine claimed a saving from this source, and five stated that there was no gain. Of the nine reporting a saving, the Bulletin states the amount only in three cases; and in two of these the item of cross-freights was combined with other economies, the aggregate sums being \$400,000 and "considerably over \$500,000." This, be it remembered, is the trusts' own showing, and is certainly not an underestimate. The reason for these comparatively small results is not difficult to discover. When the monopolized product is of a bulky sort, the industry is already localized pretty thoroughly before combination takes place; and, since most of the former independent establishments were producing chiefly for their natural local constituencies, the trust can save little in cross-freights. When, however, the product is light, transportation charges become a matter of small moment. In either case the room for saving in cross-freights is not nearly as large as has been represented, while often it does not exist.

Then it is urged that a trust can draw upon all the patented devices of the constituent companies, and employ only those that are most efficient. But advantages accruing from this fact will in most cases prove to be of a temporary nature, as trusts that have tried to base a monopoly upon the control of all available patents have learned in the past, and will learn in the future. Moreover, a simple reform in our patent laws will make the best processes available for all producers for any time that the public finds such a measure to be necessary for protection against monopoly. Here, then, we find no natural law working resistlessly towards combination, but a man-made device which can be regulated as public policy may dictate.

Again, we are told that a trust can produce more cheaply than separate concerns, because all the plants utilized can be run at their full capacity; whereas, under competition, many establishments can

be kept in operation but a part of the time. Some observations may be made concerning this claim.

In general, it may be denied that, whenever governmental interference has not produced unhealthy and abnormal conditions, competition has led to such absurdly excessive investments as is commonly assumed. We must concede, however, that under normal conditions some reduction can be made in the number of plants required to supply the market at ordinary times; but this does not dispose of the matter. If a trust is to be prepared for supplying the market promptly in times of rapidly increasing demand, it is necessary that some surplus productive capacity must exist in periods of stationary or decreasing demand; for, as believers in the tendency to monopoly often remind us, many months, or even one or two years, are required for the construction of new plants. When this fact is taken into account, the case will stand as follows: except where the action of government has produced abnormal conditions, the capacity of competing establishments does not exceed the requirements of the market to any such degree as is commonly assumed; even a trust must provide for periods of expanding trade; even then, not all rival establishments suffer seriously from inability to find continuous employment for their plants, so that probably the advantages secured by the trust are of consequence only when the least fortunate or least efficient independent concerns are made the basis of comparison.

Again, we are reminded of advantages in buying materials or selling products. It is urged that a combination can purchase its raw materials more cheaply than separate concerns. No one doubts that a large company can often secure better terms than a small establishment; but it is not so clear that every trust can secure supplies more cheaply than large independent enterprises, unless it is true that all combinations can arbitrarily depress the prices of the materials which they consume. Undoubtedly, this has been done by some of the trusts, although their partisans deny it; but such a saving represents no social gain, and sometimes it may be possible for would-be competitors to profit by the depressed condition of the market for few raw materials.

And, finally, we come to economies in advertising and in soliciting business, where the wastes of competition are certainly serious and the room for improvement correspondingly great. Those who deny the tendency to monopoly generally admit that a trust can have a material advantage here, while those who affirm the existence of such a tendency evidently realize that their case is strongest at this point. Yet an opportunity for saving in these departments

does not always exist, and the extent of the economy is easily exaggerated in other cases. Mr. Nettleton is right when he says: "But to what extent the trust organizers have counted on practically cancelling expenditure for these two items, on the ground that buyers will be obliged to come to the sole manufacturers, they are likely to be surprised. To an extent which few appreciate, the buying public has become accustomed to being reminded of its needs before making purchases. Except in staple and absolutely necessary commodities, demand is largely created and maintained by advertising through periodicals, catalogues, or traveling salesmen. Hence, the trust that expects to save the bulk of this important item must also expect to lose through diminished sales more than the economy represents. This is not theory, but the testimony of leading dealers in many lines."

We must now take into account certain counteracting forces, upon which some writers rest their belief that competition will ultimately prevail. These economists contend, in the first place, that, outside the field of the natural monopolies, the growth of a business enterprise is limited by the fact that companies of a certain size will secure "maximum efficiency" of investment, and that beyond this point concentration brings no increase in productive capacity. This position is based upon the belief that a factory of a certain size will enable machinery to be employed in the most advantageous manner; that a reasonable number of such plants will make possible all needful specialization of production; that allied and subsidiary industries can be, and are, carried on by large independent concerns; and that the cost and difficulties of supervision increase rapidly after a business is enlarged beyond a certain size, especially when it is attempted to unite plants situated in different parts of the country. For this reason, increased output does not decrease the burden of fixed charges after a company attains a certain magnitude; but, on the contrary, new charges arise. Among such new expenses, not the least important are the cost of employing the most skilled legal talent to steer the combination just close enough to the law, the expenses necessary for "legislative" and "educational" purposes, and the outlays for stifling competition or the continual "buying out" of would-be rivals.

It is argued that an established monopoly will suffer actual loss from listless and unprogressive management. As the *New York Journal of Commerce* rightly insists, "It is not to be denied that such concentrations of management will be subject to countervailing offsets from the absence of the stimulus of competition; from

the uncertainty about the management falling into the best possible hands; from the discouragement to invention which always attends monopoly, and from the possibility that the administration may be intrusted to 'friends' rather than to experts." As Professor Clark suggests, an established monopoly, secure in the possession of the markets of a large country "would not need to be forever pulling out its machines and putting in better," so that, as compared with countries where industry is upon a competitive basis, such a combination would fall behind in the struggle for international trade. In ruthlessly and unceasingly displacing expensive machinery with newer and better appliances, American manufacturers have probably led the world; but monopolies will inevitably feel reluctant to continue such an energetic policy of improvement. As combinations obtain a greater age, they will persist in old and established methods; while nepotism and favoritism, tending towards hereditary office-holding will replace the energetic management that some of the trusts now display.

Here we may refer to two of the alleged advantages of trusts. It is said that combinations develop abler management through the opportunity they afford for a specialization of skill upon the part of their officials, and that efficiency is increased by a comparison of the methods and costs of production in the various plants.

When it is contended that the "strength of the trust is that it gives the opportunity for the exercise of these highest qualities of industrial leadership," and that it gives us "a process of natural selection of the very highest order," we may question whether stock speculation and other causes lying outside the sphere of mere productive efficiency have not had more to do with the formation of recent combinations than demonstrated superiority in business management. It may be asserted that the establishment of permanent monopoly will interfere seriously with the future process of selection. It must be remembered that the able leaders now at the head of the successful trusts were developed out of a field which afforded the widest opportunity for creative ability. The supreme qualities requisite for great industrial leadership are not likely to be fostered by a regime which closes each important branch of manufacture to new enterprise, and renders hopeless all competition with a single consolidated company. Will successive generations of bureau chiefs or heads of departments in long-established corporations be able to continue the race of masterful leaders, which freedom in originating and organizing independent industries has given us in the present age?

The second argument advanced to prove the tendency to monopoly is the claim that mere mass of capital confers such powers of destructive warfare as to deter possible competitors from entering the industry, at least until prices have long been held above the competitive rate. It is said that a large combination can lower prices below the cost of production in any locality where a small rival concern is established, thus driving it out of the field. Without doubt the destructive competition waged by combinations is an important consideration, and it may well enough re-enforce monopoly where other attendant circumstances favor consolidation. But a monopoly based solely upon this power would be, confessedly, a temporary affair; for probably no one would claim that all capitalists would be intimidated permanently by such circumstances.

The final reason for the belief that combinations must ultimately prevail is found in the character of modern competition in these industries which require heavy investments of fixed capital. Under such conditions the difficulty of withdrawing specialized investments and the losses that are entailed by a suspension of production make competition so intense that prices may be forced far below a profitable level without decreasing the output; and industrial depression inevitably follows.

In support of this line of argument, it is said that trusts are beneficial, because they can "exercise a rational control over industry," and "adjust production to consumption." Thus it is believed that commercial crises can be prevented, or, at least, that their worst effects can be avoided. But such arguments overlook the facts that a restriction placed upon production by a trust, especially if this is sufficient to raise prices above the competitive rate, may react injuriously upon other trades; and that monopoly profits, accruing to a small body of capitalists for a long period of time, must constitute a tax upon the body of the people that will affect the distribution of wealth in such a way as to reduce the consuming power of the masses. A reduction in purchasing power thus produced would render excessive the existing investments in staple industries, and produce crises.

Not only is it doubtful whether monopoly is a wise method of regulating industry, but it is certain that the evils of competition are greatly exaggerated in some cases, while in others they are due to unhealthful conditions for which an interference with industrial freedom is responsible. In many other industries where trusts have been formed, the excessive investment of which writers complain was caused by the undue stimulus given by high protective duties and by

the restriction of foreign competition. Competition is restricted by protective duties in most of the industries where combinations are formed; these duties increase the severity, and perhaps the frequency, of the fluctuations from which business suffers; then trusts, a further restriction of freedom, are advocated as a remedy for the ills caused by the initial interference with individual enterprise; and, finally, in order to regulate the trusts, an elaborate system of public supervision is proposed. Would it not be well to make a genuine trial of competition before condemning it for producing evils which are greatly increased by governmental interference with industrial freedom?

#### 196. Monopoly and Efficiency<sup>15</sup>

BY LOUIS D. BRANDEIS

Earnest argument is constantly made in support of monopoly by pointing to the wastefulness of competition. Undoubtedly competition involves some waste. What human activity does not? The wastes of democracy are among the greatest obvious wastes, but we have compensations in democracy which far outweigh that waste and make it more efficient than absolutism. So it is with competition. The margin between that which men naturally do and which they can do is so great that a system which urges men on to action, enterprise and initiative is preferable in spite of the wastes that necessarily attend that process. I say "necessarily" because there have been and are today wastes incidental to competition that are unnecessary. Those are the wastes which attend that competition which does not develop, but kills. Those wastes the law can and should eliminate. It may do so by regulating competition.

It is, of course, true that the unit in business may be too small to be efficient. The larger unit has been a common incident of monopoly. But a unit too small for efficiency is by no means a necessary incident of competition. It is also true that the unit in business may be too large to be efficient, and this is no uncommon incident of monopoly. In every business concern there must be a size-limit of greatest efficiency. What that limit is will differ in different businesses and under varying conditions in the same business. But whatever the business or organization there is a point where it would become too large for efficient and economic management, just as there is a point where it would be too small to be an efficient instrument. The limit of efficient size is exceeded when the disadvantages attendant upon its size outweigh the advantages, when the centrifugal force exceeds the centripetal. Man's work often outruns the

<sup>15</sup>Adapted from an article in *American Legal News*, XXIV (1913), 8-12.

capacity of the individual man; and, no matter what the organization, the capacity of an individual man usually determines the success or failure of a particular enterprise, not only financially to the owners, but in service to the community. Organization can do much to make concerns more efficient. Organization can do much to make larger units possible and profitable. But the efficiency even of organization has its bounds; and organization can never supply the combined judgment, initiative, enterprise and authority which must come from the chief executive officers. Nature sets a limit to their possible accomplishment. As the Germans say: "Care is taken that the trees do not scrape the skies."

That mere size does not bring success is illustrated by the records of our industrial history during the past ten years. This record, if examined, will show that:

1. Most of the trusts which did not secure monopolistic positions have failed to show marked success as compared with the independent concerns.

This is true of many existing trusts, for instance, of the Newspaper Trust, the Writing Paper Trust, the Upper Leather Trust, the Sole Leather Trust, the Woolen Trust, the Paper Bag Trust, the International Mercantile Marine; and those which have failed, like the Cordage Trust, the Mucilage Trust, the Flour Trust, should not be forgotten.

2. Most of those trusts which have shown marked success secured monopolistic positions either by controlling the whole business themselves, or by doing so in combination with others. And their success has been due mainly to their ability to fix prices.

This is true, for instance, of the Standard Oil Trust, the Shoe Machinery Trust, the Tobacco Trust, the Steel Trust, the Pullman Car Company.

3. Most of the trusts which did not secure for themselves monopoly in the particular branch of trade, but controlled the situation only through price agreements with competitors have been unable to hold their own share of the market as against the independents.

This is true, for instance, of the Sugar Trust, the Steel Trust, the Rubber Trust.

4. Most of the efficiently managed trusts have found it necessary to limit the size of their own units for production and for distribution.

This is true, for instance, of the Tobacco Trust, the Standard Oil Trust, the Steel Trust.



Lack of efficiency is ordinarily manifested either

1. In rising cost of product,
2. In defective quality of goods produced, or
3. In failure to make positive advances in processes and methods.

The third of these manifestations is the most serious of all. In this respect monopoly works like poison which infects the system for a long time before it is discovered, and yet a poison so potent that the best of management can devise no antidote.

Take the case of the Steel Trust. It inherited through the Carnegie Company the best organization and the most efficient steel makers in the world. It has had since its organization exceptionally able management. It has almost inexhaustible resources. It produces on so large a scale that practically no experimental expense would be unprofitable if it brought the slightest advance in the art. Yet: "We are today something like five years behind Germany in iron and steel metallurgy, and such innovations as are being introduced by our iron and steel manufacturers are most of them merely following the lead set by foreigners years ago."

The Shoe Machinery Trust, the result of combining directly and indirectly more than a hundred different concerns, acquired substantially a monopoly of all the essential machinery used in bottoming boots and shoes. Its energetic managers were conscious of the constant need of improving and developing inventions and spent large sums in efforts to do so. Nevertheless, in the year 1910 they were confronted with a competitor so formidable that the Company felt itself obliged to buy him off, though in violation of the law and at a cost of about \$5,000,000. That competitor, Thomas G. Plant, a shoe manufacturer who had resented the domination of the trust, developed an extensive system of shoe machinery, which is believed to be superior to the Trust's own system, which represents the continuous development of that Company and its predecessors for nearly half a century.

But the efficiency of monopolies, even if established, would not justify their existence unless the community should reap benefit from the efficiency; the experience teaches us that whenever trusts have developed efficiency, their fruits have been absorbed almost wholly by the Trusts themselves. From such efficiency as they have developed the community has gained substantially nothing. For instance:

The Standard Oil Trust, an efficiently managed monopoly, increased the prices of its principal products between 1895 and 1898, and 1903 to 1906 by 46 per cent.

The Tobacco Trust is an efficiently managed monopoly. Between 1899 and 1907 the selling price on smoking tobacco rose from 21.1 cents per pound to 30.1 cents; the profit per pound from 2.8 cents per pound to 9.8 cents. The selling price of plug tobacco rose from 24.9 cents per pound to 30.4 cents; the profit per pound from 1.9 cents to 8.7 cents.

The Steel Trust is a corporation of reputed efficiency. The high prices maintained by it in the industry are matters of common knowledge. In less than ten years it accumulated for its shareholders or paid out as dividends on stock representing merely water, over \$650,000,000.

### C. TYPES OF UNFAIR COMPETITION

#### 197. The "Tieing" Agreement<sup>10</sup>

BY W. H. S. STEVENS

Perhaps the most interesting of any of the methods of unfair competition is the requirement that, in order to obtain certain articles, a concern shall lease, sell, purchase, or use certain other articles. The successful imposition of such requirements is usually most destructive to competition; and not infrequently it may be suppressed altogether. Though conditions of this character show variety, they may be discussed under three heads:

1. The purchase or lease of articles upon which the patents have expired, as a condition of obtaining patented articles.

The "tieing" clauses in the leases of the United Shoe Machinery Company furnish an example of this: A "tieing" clause may be described as a provision that a given machine must be used in conjunction with another or other machines. Sometimes the Shoe Machinery Company leases together two patented articles. In certain other cases the leases have tied to patented machines others upon which the patents have expired. The effect of the latter type of clause was described by a witness before a congressional committee: "At the present time a very large proportion of the important basic patents have expired, and but for the restrictions imposed upon us by their leasing system we should today be exercising our undoubted right to use, without royalty, a large part of the machinery now employed."

The Crown Cork and Seal Company, of Baltimore, manufactures more tin caps for bottles than does any other concern in the United

<sup>10</sup>Adapted from "Unfair Competition," *Political Science Quarterly*, XXIX, 291-99. Copyright, 1914.

States. The same concern also controls patents upon a certain device known as the Jumbo capping machine. None of the machines is sold. They are leased to brewing and bottling establishments under agreements which provide that the "said machines shall be used only in connection with Crown corks purchased by the lessee directly from the lessor." The patents on the caps expired years ago. The lease attempts to compel bottlers to purchase all caps from the Crown Cork and Seal Company.

The theory which underlies the grant of a monopoly in a patent is that human progress is promoted by the gift to inventors for a term of years of the exclusive property in their inventions. At the end of the period it is intended, however, that the inventions shall become the property of the public. Theoretically any concern may begin the production of an article previously patented as soon as the term of the patent expires. Actually it may be unable to do so. Conditional requirements may so destroy the market that even if the goods are produced there would be no customers to purchase. This precise situation seems to have developed through the "tying" clauses of the Shoe Machinery Company applying to patents.

2. The use of certain patented articles as a condition of obtaining other patented articles.

The contracts of the Shoe Machinery Company require that a given patented machine must be used in conjunction with another patented machine. Under free competition the relative productive efficiency of various machines produced by various concerns would determine to a nicety the reward belonging to each patentee. As it is, a machine more efficient than the United's machine for the work it is designed to perform might have no market and bring in no royalties to its patentee. A similar case is that of the Motion Picture Patents Company, which, by virtue of its film control, has endeavored to compel the use of motion pictures containing one or more of the patents which it controls.

3. The purchasing, selling, or handling of a certain article or line of articles as the condition of the purchase or handling of another article or line of articles.

The Commissioner of Corporations in his report on the International Harvester Company has used the term "full-line forcing" to describe "the practice of requiring dealers to order new lines as a condition of retaining the agency for some brand of the company's harvesting machines."

A restriction of similar character is charged by the government in its suit against the American Coal Products and Barrett Manu-

facturing companies. These concerns are supposed to have a very substantial control of the pitch made from coal tar. Some purchasers and users of roofing materials have been required to buy one ton of felt to every two tons of pitch.

198. The Control of Cost Goods<sup>17</sup>

BY W. H. S. STEVENS

Attempts to acquire the control of the machinery necessary to the manufacture of a particular line of goods are by no means unknown. Following its organization in 1890 the old American Tobacco Company, by securing and maintaining for some time the exclusive control of the most successful cigarette machinery, was enabled to strengthen its dominant position in the business. At the time of its organization it acquired control of the Allison and the Emery machines, the patents of which belonged to firms entering the new combination. Soon afterward it made a contract for the exclusive use and control of the Bonsack machines. Thus it acquired control of the very best machines used in the production of cigarettes.

In 1913 the government brought suit against the American Can Company. That concern was charged with acquiring control of the principal can-making machinery plants of the United States, together with most of the valuable patents for making that machinery. In some cases this result was accomplished through long-term contracts with patentees for controlling the disposition of the machinery manufactured under their patents; in others by the purchase of licenses which the owners of the patents had issued to the manufacturers of cans; in still others by obtaining contracts to sell such machinery to other parties.

Somewhat different are cases in which control is acquired of the articles or materials which enter into the manufacturing process. The greater part of the supply of raw paper used in the manufacture of photographic papers throughout the world is said to be in the hands of the General Paper Company of Germany. Prior to 1906, when the control of this company was almost complete, the General Aristo Company, which is controlled by the Eastman Kodak Company, is alleged to have contracted to purchase the entire supply of raw paper exported by the General Paper Company to the United States. This contract, it is claimed, was continued from 1906 to 1910. Testimony before the Industrial Commission is to the effect

<sup>17</sup>Adapted from "Unfair Competition," *Political Science Quarterly*, XXIX, 469-75. Copyright, 1914.

that the Photographic Supplies Combination first secured control of raw paper imported from Germany about the year 1899.

The government has charged the Aluminum Company of America with endeavoring to obtain such a control of the bauxite properties of the United States as would prevent anyone but itself from producing metal aluminum. Prior to 1905, the Aluminum Company of America possessed valuable bauxite properties, yet it did not approach control of even 50 per cent of the total bauxite supply of the United States. In that year, however, the company through the General Chemical Company acquired the capital stock of the General Bauxite Company. As part consideration for this contract, the General Chemical Company agreed that it would not use or sell bauxite sold to it by the General Bauxite Company for conversion into metal aluminum, but would use it solely for the manufacture of alum, alum salts, alumina sulphate, and similar products. In 1909 a contract was made with the Norton Chemical Company for the purchase of the bauxite properties of the Republic Mining and Manufacturing Company, whose capital stock was owned by the Norton company. In considering these contracts made by the Aluminum Company of America, it should be borne in mind that this organization is alleged to control nearly one-half of the stock of the Aluminum Castings Company, 37 per cent of the stock of the Aluminum Goods Manufacturing Company, and to be sole owner of the stock of the Northern Aluminum Company and the United States Aluminum Company, manufacturers of aluminum cooking utensils.

#### D. THE REGULATION OF MONOPOLY

##### 199. The Sherman Anti-Trust Act<sup>18</sup>

Section 1. Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several states, or with foreign nations, is hereby declared to be illegal. Every person who shall make any such contract or engage in any such combination or conspiracy, shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by a fine not exceeding five thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

Section 2. Every person who shall monopolize, or attempt to monopolize, or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several states, or with foreign nations, shall be deemed guilty of a misde-

<sup>18</sup>From 26 U. S. Statutes 209 (1900). There are eight sections. The five sections given here form the essential part.

meanor, and, on conviction thereof, shall be punished by fine not exceeding five thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

Section 3. Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce in any territory of the United States or in the District of Columbia, or in restraint of trade or commerce between any such territory and another, or between any such territory or territories and any state or states or the District of Columbia, or with foreign nations, or between the District of Columbia and any state or states or foreign nations, is hereby declared illegal. Every person who shall make any such contract or engage in any such combination or conspiracy shall be deemed guilty of a misdemeanor, and, on conviction thereof, shall be punished by fine not exceeding five thousand dollars, or by imprisonment not exceeding one year, or by both said punishments, in the discretion of the court.

Section 7. Any person who shall be injured in his business or property by any other person or corporation by reason of anything forbidden or declared to be unlawful by this act, may sue therefor in any circuit court of the United States in the district in which the defendant resides or is found, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the costs of the suit, including a reasonable attorney's fee.

Section 8. That the word "person" or "persons," wherever used in this act, shall be deemed to include corporations and associations existing under or authorized by the laws of the United States, the laws of any of the territories, the laws of any state, or the laws of any foreign country.

## 200. The Meaning of Restraint of Trade<sup>19</sup>

In substance, the propositions urged by the government are reducible to this: That the language of the statute embraces every contract, combination, etc., in restraint of trade, and hence its text leaves no room for the exercise of judgment, but simply imposes the plain duty of applying its prohibitions to every case within its literal language. The error involved lies in assuming the matter to be decided.

<sup>19</sup>Adapted from the opinion of the court in the case of *The Standard Oil Company of New Jersey v. United States*, 221 U. S. 1 (1911). By this decision the Standard Oil Company of New Jersey was ordered "dissolved." The significance of the decision lies in the distinction made by the court between "reasonable" and "unreasonable" restraint of trade, and the insistence that the Sherman act was meant to apply to the latter exclusively. This is the subject of discussion in the selection given here. The Standard, of course, was found guilty of "unreasonable" restraint of trade.

This is true because, as the acts which may come under the classes stated in the first section and the restraint of trade to which that section applies are not specifically enumerated or defined, it is obvious that judgment must in every case be called into play in order to determine whether a particular act is embraced within the statutory classes and whether, if the act is within such classes, its nature or effect causes it to be a restraint of trade within the intendment of the act. To hold to the contrary would require the conclusion either that every contract, act, or combination of any kind or nature, whether it operated a restraint on trade or not, was within the statute, and thus the statute would be destructive of all right to contract or agree or combine in any respect whatever as to subjects embraced in interstate trade or commerce, or if this conclusion were not reached, then the contention would require it to be held that as the statute did not define the things to which it related and excluded resort to the only means to which the acts to which it relates could be ascertained—the light of reason—the enforcement of the statute was impossible because of its uncertainty. The merely generic enumeration which the statute makes of the acts to which it refers and the absence of any definition of restraint of trade as used in the statute leaves room for but one conclusion, which is that it was expressly designed not to unduly limit the application of the act by precise definition, but while clearly fixing a standard—that is, by defining the ulterior boundaries which could not be transgressed with impunity—to leave it to be determined by the light of reason, guided by the principles of law and the duty to apply and enforce the public policy embodied in the statute in every given case, whether any particular act or contract was within the contemplation of the statute.

#### 201. Provisions of the Clayton Act<sup>20</sup>

BY W. H. S. STEVENS

The Clayton Act provides:

A. That it shall be unlawful for any person engaged in commerce to make discriminations in prices between different purchasers of commodities sold for use, consumption, or resale, where the effect of the discrimination may be substantially to lessen competition or tend to the creation of a monopoly.

B. That it shall be unlawful for any person engaged in commerce to lease, sell, or contract for the sale of goods, patented or unpatented, or to fix a price charged therefor, or discount, or rebate,

<sup>20</sup>Only a few of the provisions of the law are given, and these, because of their great length, are presented in summary form. The adaptation is from "The Clayton Act," *American Economic Review*, V, 40-41. Copyright, 1915.

upon such price, conditioned upon the lessee or purchaser thereof, not using or dealing in goods, of competitors of the lessor or seller, where the effect may be substantially to lessen competition, or tend to create a monopoly.

C. That no corporation shall acquire the whole or any part of the stock or other share capital of another corporation, or two or more corporations, where the effect may be substantially to lessen competition, to restrain commerce, or to tend to create a monopoly.

D. From and after two years from the date of the approval of the act:

1. No person shall be a director or other officer or employee of more than one bank organized under the laws of the United States if any one of them is above a certain size; and no private banker or person who is director in any bank or trust company organized under the laws of any state, and above a certain size, shall be eligible as a director of any bank or banking association incorporated or operating under the laws of the United States.

2. No bank organized or operating under the laws of the United States in any city, incorporated town, or village, of more than 200,000 inhabitants, shall have as director or officer or employee any private banker or any director or any other officer or employee of any other bank located in the same place.

3. No person shall be a director at the same time in any two or more corporations (other than banks and common carriers) engaged in interstate commerce, any one of which has capital, surplus, and undivided profits aggregating more than \$1,000,000, if such corporations have been competitors so that the elimination of competition between them will constitute a violation of any of the provisions of the antitrust laws.

## 202. Powers of Federal Trade Commission<sup>21</sup>

BY W. H. S. STEVENS

Two acts have recently been passed making important changes in the federal laws as it applies to trusts and combinations. These measures are generally known as the Trade Commission Act and the Clayton Act.<sup>22</sup> With reference to this legislation the following conclusions may be drawn:

1. The Trade Commission is a body with wide powers of investigation and limited administrative authority.

<sup>21</sup>Adapted from "The Clayton Act," *American Economic Review*, V, 51-54. Copyright, 1915.

<sup>22</sup>The former measure became a law when the President attached his signature to it September 26, 1914, and the latter on October 16, 1914.



2. Several of its investigatory powers have to a noticeable degree been previously exercised by the Bureau of Corporations or the Department of Justice. But the investigatory authority of the commission is considerably greater than that possessed in the past by both of these other agencies.

3. The commission is given powers of making recommendations to the Attorney-General for the readjustment of the business of corporations violating the anti-trust acts and also of ascertaining and reporting appropriate decrees in equity suits brought by or under the Attorney-General. But the exercise of these functions depends in the first place upon the application of the Attorney-General and in the second case upon the reference of the suit by the courts to the commission.

4. The Trade Commission Act gave the commission a most important administrative authority in providing that the body should prevent unfair methods of competition. The Clayton measure further extended this authority in giving it jurisdiction to enforce the prohibitions against holding companies and interlocking directorates. It also gave it jurisdiction to prevent price discriminations and exclusive and tying agreements.

5. The enforcement of the principal prohibitions of the Clayton Act and of the unfair competition section of the Trade Commission Act is entrusted to the commission by the following method of procedure. The commission conducts a hearing and makes an order against a practice, a review of which may be had by the party against whom it is made in the Circuit Court of Appeals. If the order is not obeyed the commission applies to the same court for enforcement, and the jurisdiction of the court in both cases is exclusive and final.

6. A concurrent justification has been vested in the district courts to enforce the prohibitions against price discriminations, exclusive and tying agreements, holding corporations, and interlocking directorates. Thus it is to be noted that there are two courts of appeal: the Circuit Court of Appeals when the Trade Commission makes order against these practices, the Supreme Court when the district court enjoins them.

7. The new laws rely primarily upon contempt proceedings and the penalties therefore in enforcing their prohibitions.

8. The elimination of the criminal penalties from several sections of the Clayton Act and the lack of any such provisions as punishment for unfair methods of competition clearly point to civil rather than criminal procedure as the remedy to be invoked in cases

of violation of the principal prohibitions of the new legislation. This, coupled with the fact that the new laws provide for a Trade Commission with jurisdiction over the important prohibitions, points to a policy of administrative regulation of the trusts.

9. The powers given to the Trade Commission of classifying corporations and prescribing the form of reports are pregnant with possibilities. Through these powers it would appear possible for the Trade Commission to determine with some correctness the relative economic efficiency of competition on the one hand and combination and monopoly on the other. Even if no such broad determination can be arrived at for industry in general, it ought at least to be able to learn in what types and kinds of business the one or the other principle is the more efficient.

10. There are provisions in the new legislation in the direction of enabling individuals to protect themselves against loss or damage by reason of violations or threatened violations of the anti-trust acts. This embraces among other things a re-enactment, now applied to violations of any of the antitrust acts, of the threefold damage clause of the Sherman Act.

## E. THE POLICY OF "TRUST BUSTING"

### 203. Law and Forms of Combination<sup>23</sup>

BY BRUCE WYMAN

Notwithstanding all the law against agreements in restraint of trade, the present generation has seen the greatest movement toward consolidation which is recorded in economic history. But this was not accomplished without a reckoning with the law. In the face of adverse law the ingenuity of attorneys, acting for clients who wished to bring about a community of interests, has been taxed to the utmost; and at best their schemes have proved only temporary expedients. In this era of consolidation there has been a change of base at least four times; first, the pool—a direct agreement between the corporations concerned for their joint operation to a certain extent; second, the trust—an indirect arrangement between the shareholders to control the actions of their corporations; third, the holding company—a central company to hold the shares of the constituent companies; and, fourth, the single corporation, which buys the properties of the competing corporations outright. Yet, despite these various forms, the problem as to how various corporations may be concentrated under one control is still to a large extent unsolved.

<sup>23</sup>Adapted from *Control of the Market*, pp. 142-64. Copyright by the author. Published by Moffat, Yard & Co., 1911.

There was never real legal expectation of the success of any form of pooling. There was too much express authority against combinations in restraint of trade for that.

Perhaps every member would live up to his agreement; but there was no remedy at law if anyone did not. Perhaps the proceeds of the pooling would be fairly divided; but the court would not order an accounting. And experience showed again and again that, without legal obligation, there were always members in any such pool treacherous enough to break it. Moreover, there was the corporation law to reckon with which has always held it contrary to policy for corporations to surrender their independence by entering a pool. The courts have held that for no purpose, legal or illegal, could corporations be members of a partnership; that they could not carry on their business in common.<sup>24</sup>

It is further to be noted that when a combination in restraint of trade is once proved to be such, outlawry is declared. It can bring no suit against those in it; neither can they sue it. The courts will have nothing to do with either association or associates. This is the penalty, that the loss must lie where it falls; and this policy is in itself often one of the strongest of deterrents. Thus any member of the association may withdraw when it suits his interest to do so, a result that minimizes the harm that such a combination may effect. For experience shows that the result is that competition goes on surreptitiously, despite the agreement, since every active member is strengthening his position in preparation for an ultimate withdrawal. And at the psychological moment some member, who has accumulated a large stock while production has been curtailed, will sell out at near to the top price and break the market, thus causing his associates irreparable losses.

Such was the state of the law when the trust agreement was discovered by a startled community. The features of this scheme are well known. All the shares of the capital stock of all the confederating corporations are transferred to a board of trustees. These issue trust certificates in lieu of these shares, thus reserving the voting rights in all the corporations. As a cover for the scheme all of the corporations remain in existence; and in form each conducts its own business without any cross agreements among themselves.

From the point of view of those who had on foot a scheme to monopolize, this trust device was excellent. It was centralized in its control and secret in its doings. It left the power of control with the inner circle, while enabling them to market as many securities as they pleased. But adverse court decisions robbed the agreement

<sup>24</sup>*Mills v. Upton*, 10 Gray 582; *Mallory v. Hanau Oil Works*, 86 Tenn. 596.

of its effectiveness.<sup>25</sup> It was held against the law governing corporations in that it was beyond its power for a company thus to surrender its independence. It was also a void arrangement by the law against combinations in restraint of trade. The courts looked through the outer forms into the inner facts. This was fortunate, for from the point of view of the state the scheme was almost beyond control, as its accounts could be juggled and responsibility for wrongdoing could not be fixed.

A transition period of a few years followed upon the dissolution of the trusts. The original owners still had the properties; and the common danger held them together, temporarily at least. Meanwhile the lawyers were casting about for some new scheme for combining interests that would have legal sanction. The first schemes were rather obvious attempts to make use of some established arrangement as a cover for combination. Rather absurd these were, doomed to early exposure from the outset. What could not be done directly could not be brought about by indirection. The imperative need was a device that would stand the test of legality. It is true that without legal sanction much may be done under a gentleman's agreement; but without legality in organization there is no security. Nor can there be any permanence unless the arrangement is perpetual. And, further, without security and permanence, there can be no issue of securities or market for them.

Eventually there was evolved the idea of a holding corporation, a new central body which should acquire a majority of the stocks of the constituent companies. The holding company possessed possibilities of manipulation pleasant to contemplate; the marketable issues could be doubled by making the stock of the holding corporation twice that of the constituent companies; and since the operation of the business could be concealed between the accounts of the holding company and the constituent companies, there would be nothing to fear from the publication of formal statements.

There were obviously legal difficulties. In most states by the common law it was beyond the powers of one corporation to hold the stock of another for the purpose of operation. In some states, however, statute law or special charter permitted corporations to be organized to hold the stocks of other corporations. But this was at best a solution of only one of the difficulties; another remained. Granted that the corporation was enabled to act without violation of the corporation law, there was the anti-trust law still to reckon with.

So it came to be recognized that there was a safer way, if one

<sup>25</sup>*People v. North River Sugar Refining Company*, 121 N. Y. 582; *State v. Standard Oil Company*, 49 Ohio St. 137.

chose to take it. The approval form among lawyers during the last few years for making a consolidation of interests is by the formation of a single gigantic corporation intended to take over by purchase all the different concerns that are to be brought together. It has been ruled that "corporations are empowered to purchase, hold, and use property appropriate to their business. Under such powers it is obvious that a corporation may purchase the plant and business of competing individuals and concerns."<sup>26</sup> But this is not unquestioned law by any means. A court of equal authority has said, "There is no magic in a corporate organization which can purge the trust scheme of its illegality, and it remains as essentially opposed to the principles of sound public policy as when the trust was in existence. It was illegal before and is illegal still, and for the same reason."<sup>27</sup>

From step to step in this succession there is a movement toward integration. Now that the end of economic evolution has been reached in a single corporation, the law against combinations in restraint of trade may perhaps cease to operate. Now the state may impose such special regulation upon these industrial concerns as the situation requires. The problem is therefore much simplified since the time of the trusts. It has been reduced to its lowest terms by the activity of the law in insisting that all combinations of every stripe should be destroyed. The question then emerges, Shall these great corporations be destroyed or shall they be regulated? That, it is submitted, is the trust problem in its latest phase.

#### 204. An Appraisal of the Sherman Act<sup>28</sup>

BY ALLYN A. YOUNG

The Sherman act is a general statute, declaratory of public policy. As such it must be judged by (1) the soundness of the policy which it declares, (2) the accuracy and completeness with which it declares that public policy, and (3) the adequacy of the mechanism which it provides for making that policy effective.

1. There can be little doubt that the public policy which the act was intended to embody is that competition should be maintained, artificial monopoly destroyed, and its growth prevented. It is clear from the debates attending its enactment that its hostility toward large industrial combinations was especially directed against (1)

<sup>26</sup>*Trenton Potteries Company v. Oliphant*, 58 N.J. Eq. 507.

<sup>27</sup>*Distillers and Cattle Feeding Company v. People*, 156 Ill. 448.

<sup>28</sup>Adapted from "The Sherman Act and the New Anti-Trust Legislation," *Journal of Political Economy*, XXIII, 213-20. Copyright by the University of Chicago, 1918.

their supposed power over prices and (2) their aggressive suppression of competition. Whatever the economic advantages of monopoly may be, there will be little question of the soundness of the policy which attempts to deprive it of its power for evil in these two particulars.<sup>20</sup>

2. Is the Sherman act an accurate expression of the public policy which it seeks to declare? If by accuracy is meant precision, it has little of it. It was, in its inception, a lawyer's statute, speaking in the language of the common law. At the time it was evident that it would be difficult for Congress to come to an agreement on particulars. Moreover, its general phrases were chosen intentionally, we are told by one of its framers, in order that the responsibility of determining its exact scope might be left to the courts. For seven years its interpretation was uncertain. The decisions of the lower court were conflicting, and the Supreme Court's holdings purely negative. Even after an utterance from this court, the words "restraint of trade" still remained to be defined, and in the next thirteen years the work of definition progressed only so far as the particular cases decided were typical of the classes of cases possible. The standard of public policy outlined in the Standard Oil decision was the first general criterion of the scope of the act. There is little doubt that the present interpretation of the statute is in harmony with the purposes which were in mind at the time of its enactment. There is now no question that if the purposes of combination are monopoly, they come within the condemnation of the act. There is no reason to think, for example, that price agreements and agreements to restrict output, whether of local or general scope, are not as illegal now as they have been at any time.

As a general expression of the public policy which it is supposed to embody the Sherman act is adequate. The difficulty is that it goes too far. In the first place, it is so worded that it is used as a weapon against strikes, boycotts, and other concerted efforts to

<sup>20</sup>Most of the more weighty discussions of the economic advantages of monopoly have to do with the effect of monopoly upon the aggregate production of wealth measured in terms either of subjective satisfaction or of objective commodity units. Even from this point of view the case for monopoly is exceedingly dubious and, at best, has a validity that is restricted and conditioned in many ways. Moreover such considerations are relatively unimportant compared with matters like the effect of monopoly upon distribution, upon the scope for individual initiative, upon economic opportunity in general, and upon a host of social and political relations. In short, it is a question less of the relative "economy" of monopoly or competition than of the kind of economic organization best calculated to give us the kind of society we want. Until our general social ideals are radically changed, it will take more than economic analysis to prove that it would be sound public policy to permit monopoly in that part of the industrial field where competition is possible.

interfere with the conduct of any business undertaking which ships its goods across state lines or to other countries. These things may be undesirable; very likely some of them are. But they are so far out of line with the other things condemned by the Sherman act, and in most instances have so little relation to "monopolizing" that they should be cut from the list of offenses condemned by the act. In the second place, the application of the Sherman act to railroads is inconsistent with the standards of public policy embodied in the Interstate Commerce Act. We regulate railroad rates and services on the assumption that railroads are natural monopolies, and that combinations or rate agreements are inevitable. But at the same time we condemn railroad combinations and rate agreements, and, as in the New Haven case, bring criminal indictments against the men responsible for such combinations. From railroads we exact the observance of two mutually inconsistent standards of morality. The real evils in railway combinations are matters of corporation finance. These should be dealt with by statutes appropriate to the purpose; and the Sherman act should be so amended as to be relegated to its proper field of preventable industrial monopolizing.

Finally, there comes the question of whether even within the industrial field we want to prohibit monopoly as well as aggressive monopolizing. Probably a monopoly achieved merely by the superior efficacy of a formerly competitive business unit (if such were possible) would not be condemned by the courts as a violation of the Sherman act. And what is the status of a monopoly built up merely by the peaceful union or absorption of competitive units? In such a case on which side public policy lies it is hard to determine.

3. Does the Sherman act provide an efficient mechanism for achieving its own ends? That its criminal features have been relatively ineffective is generally admitted. Furthermore, it has been found in practice that it is very difficult to secure a criminal conviction from a jury for an offense so general, so abstract, so tainted with the general and customary imputation of immorality as "restraint of trade" or "monopolizing." There is no reason to believe that it will ever be easy to secure convictions for restraint of trade in cases where the several steps taken in the creation of the restraint are unobjectionable except as a part of a general scheme. As it is the statute provides only an indirect and uncertain way of penalizing unfair competitive methods. I see no reason why the criminal remedies of the Sherman act should be retained.

The proceedings in equity for the dissolution of a combination have, on the contrary, proved to be increasingly effective. It is con-

tended by many that the enforced dissolution of a combination means generally a mere change in form; that we are merely hunting the quarry from tree to tree. But neither in transportation nor in industry does it clearly appear that the newer and more unified forms of consolidation would not have largely displaced the old, even if the movement had not been hastened by legislations and decisions under the common law. Among other things tending to this end are the various strategic advantages of the consolidated unit, and the permanency and dependability of the new forms of combination, making possible the adoption of business policies based on long-time considerations. It is more than possible that after a long chase the quarry has at last been driven into a corner.

Is it proved that the mere dissolution of industrial combination accomplishes anything, especially in cases where the equities in the combination are made the basis of a pro rata distribution of the equities in its constituent parts? Only a few general conclusions can be stated: (1) The results must vary with the nature of the business and the degree to which the aggressive suppression of competition played a part in maintaining competitive conditions. (2) Dissolution rarely comes early enough—not until the monopolistic situation has become more or less crystallized. (3) The operation of the statute is intermittent. Dissolution should be carefully followed up, and every step in the process of restoring normal conditions should be carefully watched. This requires administrative machinery.

In its own field the Sherman act has a value all its own. No matter how carefully drawn the rules of the game may be, no matter how high the level set by the law of competition, new business conditions are bound to arise, not covered by specific statutes, and yet contrary to the generally accepted public policy of the maintenance of competition within its own proper field. The Sherman law, as a general declaration of public policy, has an elasticity and adaptability to new situations of all kinds not possible to legislation of a more specific sort. Its declaration of public policy is general enough so that it may gradually grow in meaning and change in application through judicial decision as the common law has grown and changed. So long as the preservation of competition in that large part of the industrial field in which it is feasible is public policy, why should we not, through such a statute, continue to give the federal courts jurisdiction in cases involving the assertion of that public policy? But it needs amendment in the ways which have been indicated.



205. Results of Regulating Combinations<sup>30</sup>

BY E. DANA DURAND

Few of those who have advocated the policy of permitting combinations to exist subject to regulation seems to have given thought to the magnitude of the task, its difficulties, or its ultimate outcome. They have had in mind the comparatively few closely knit trusts of the present time; the so-called "good trusts" with their alleged superior efficiency and their more or less reasonable policy toward the public.

In the first place it would be difficult to limit the number of trusts under such a policy. It is, of course, conceivable that the government should undertake to suppress combinations in general while permitting a few trusts to exist. A limited number might be tolerated because of the special economic characteristics of the industries concerned which tended to make combination particularly economical. If, however, the people once concede the right of a monopolistic combination to exist, independently of extraordinary conditions, a sense of justice should apparently compel them to permit combinations *ad libitum*. Under no theory of justice could all the trusts heretofore organized be permitted to continue without granting permission to organize trusts in every other field.

In the second place, it would seem that if combinations having power to restrain trade are to be permitted at all, they must be permitted to become as comprehensive as they desire. Why should a combination not be allowed to take over 100 per cent of the business in its field quite as readily as 80 or 70 per cent? Few desire to prohibit combinations controlling only a small proportion of a given industry; but if we permit that limit to be overstepped at all, there is no limit. One can only speculate upon how numerous and how comprehensive the trusts and pools would become if the policy were adopted of permitting them freely but subjecting them to regulation. In all probability the number would become very great. Beyond question every combination, unless prevented by the government, would take in just as large a proportion of the trade as could be persuaded to enter it. In many cases this would mean the entire trade.

If corporations were freely permitted and no limit placed upon their magnitude, neither actual nor potential competition would be an adequate check upon prices and charges for service. Government regulation would unquestionably be necessary.

Some have suggested that regulation would be comparatively

<sup>30</sup>Adapted from *The Trust Problem*, pp. 46-59. Copyright by Harvard University, 1914.

simple. Only bad trusts would be interfered with, and the fear of government intervention would make most of the trusts good. The government, some seem to think, could let the trust go its own way until it was proved to have become extortionate or to have used unfair methods, and could then step in and punish its officers, or suspend its right to do business. But how is the trust manager to know in advance what prices and what practices will be adjudged so unreasonable as to call for criminal prosecution? What advantage would there be in breaking up a trust, if another trust could be formed in its place the next day? It would be intolerable to the users of its products and services to stop its business even temporarily. A good trust may become a bad trust overnight. Shall it be a lawful organization today and an outlawed wreck tomorrow? Regulation implies continuity of the combinations. Even if the government adopted the policy of punishing trust managers as a penalty for extortionate prices and unfair practices, this would require as thorough an investigation and as difficult a judgment as to determine the proper prices and practices for the future.

In its very essence, however, regulation implies, not punishment of past action, but prescription of future action. This means that the government, if it undertakes regulation of trusts, will ultimately have to fix their prices or limit their profits, or both. There is no way to insure reasonable prices under monopoly control, but to restrict them. If the government enters upon this policy ought it not to go a step further and guarantee to the combination a permanent monopoly, protecting them against competition? The public is coming to accept the view that justice to investors in public service industries demands protection against competition. If the investor in trust securities has had his profits held down by government regulation, it is hardly fair to permit those profits to be still further lowered, perhaps wholly destroyed, by the advent of a competitor.

Whatever might be the outcome of government regulation, there can be no doubt of the immense difficulty of just and efficient regulation of the prices or the profits of industrial combinations. The federal government and the states would have to maintain elaborate and powerful machinery to control the combinations. Consider the nature of the task which would confront an administrative body. In the first place, it would have to possess at all times detailed information regarding all the concerns under its jurisdiction. The prices of many commodities are necessarily variable. The cost of material may change greatly and rapidly. The conditions of demand are changeable. Grave injury might be done to the public during the time required for securing information on which to base action if

such information were not already in the possession of the regulating authority.

In the second place, the amount of detail involved would be enormous. A proper fixing of prices would require complete knowledge of the costs of production and of the amount of investment. To make information accurate, the government would have to prescribe the methods of accounting. It would be impossible to prescribe uniform methods as is done for the railroads. The bewildering variety of conditions in the different industries would have to be provided for. Detailed reports, based on these prescribed methods, would have to be made to the government, and these would have to be scrutinized and studied with the utmost care. The government would have to employ a vast corps of expert accountants, statisticians, and other specialists. The difficulties of cost accounting are so great that many of the large business concerns have found it impossible to ascertain the costs of their products on scientific principles. The business concern can get along without accurate knowledge of its own costs. The government, however, in fixing prices, must know all about cost, both operating costs and capital charges. They are the very things which primarily determine the reasonableness of prices.

In the third place, the determination of costs and investments for the purpose of fixing prices would involve immensely difficult problems of judgment. The judgment of the regulating body would be constantly challenged and the result would probably be endless litigation. The proper allowance for depreciation and obsolescence, the proper apportionment of overhead charges among different products and services, the proper methods of valuing the different elements in investment—these would have to be passed upon by the regulating authority. Such problems are difficult enough as they confront the Interstate Commerce Commission. They would be far more difficult for a body dealing with multifarious combinations in widely different industries.

Even if the regulating authority should succeed in working out a satisfactory determination of costs of production and value of investment, it would still be beset with troubles in fixing prices or limiting profits. Demand for goods is variable even in non-competitive industries. Unchanging prices or prices bearing an unchanging relation to costs would not be practical in mining, manufacturing, and mercantile business. A combination might at times be justified in reducing prices below a normal level to stimulate demand and keep its force employed, or to meet foreign competition. The government would then have to determine how much prices could

subsequently be advanced in order to offset these reductions. In other words, the government would be dealing with a constantly changing problem of demand. Particularly difficult would be the fixing of proper prices for products produced at joint cost. Take petroleum for example. A wide variety of products are derived from the one raw material, crude oil. Some of these are in so little demand that they must be sold for less than the price of the crude oil itself. Others are in great demand and can be sold for high prices. It is impossible to use costs as a basis for determining prices of the specific products. For a regulating body to determine the proper relationships of the prices of these joint products is virtually impossible.

One could continue almost indefinitely setting forth the complexities and difficulties of government regulation of the prices and profits of combinations. A vague form of regulation will not do. It would be difficult to prove that the public would be any better off under a régime of half-regulated monopoly than under a régime of competition enforced as well as possible by laws against combinations and monopolies. Combination must be proved decidedly more efficient than competition before the people will be justified in trusting trusts under any but the most rigorous government control.

Government regulation of prices and profits always involves a large element of waste, of duplication of energy and cost. It means that two sets of persons are concerning themselves with the same work. The managers and employees of the corporation must study cost accounting and conditions of demand in determining price policy. The officers and employees of the government must follow and do it all over again. Moreover, the fact that the two sets of persons have different motives in approaching their work means friction and litigation, and these spell further expense. To superimpose a vast governmental machinery upon the vast machinery of private business is an extravagance which should be avoided if it is possible to do so.

The policy of government regulation of industry may readily become a stepping-stone to government ownership and socialism. The chances are strong that the government of the United States will take over the telegraphs and telephones in the near future and the railroads within less than a quarter of a century. If regulation by the government proves ineffective in securing reasonable rates, the general public will demand government ownership. If regulation proves so effective as to leave only moderate returns to the stockholders of the corporations, the stockholders are likely to urge gov-

ernment purchase, which would at least assure them a more certain income. In either case the excessive cost of government regulation will be urged as a reason for government ownership. In the same way, if the government undertakes detailed regulation of combinations in manufacturing, mining, and trade, there is bound to be a strong movement for government ownership in these fields also.

Government ownership of this or that industry is not necessarily a bad thing. Even government ownership of a large proportion of the industries of the country, even complete socialism, need not necessarily affright us. It is sufficient to point out that the people ought not to enter on the path of permitting and regulating combinations without considering the advantages and disadvantages of this, the possible ultimate outcome, as well as those of the immediate policy itself. If it could be proved that combination is materially more economical than competition, we should doubtless be wise to say farewell to competition. Presumably in this case we ought to test thoroughly the practicability of government regulation of private monopoly before proceeding further. The people would naturally first try the plan of government ownership, if at all, in limited fields, and compare the results with those of regulated monopoly before undertaking general government ownership. It is by no means improbable that the ultimate outcome would be socialism. The future is very likely to see either a régime of general competition—with, of course, some special exceptions—or a régime of universal communism. Clearly, then, we should be very sure of our ground before we take the first step toward possible communism. We should convince ourselves beyond all doubt that competition is impossible; or that, if possible, it is less efficient than monopoly—not merely at certain times and in certain places, but generally and permanently—before we tolerate widespread combination in the field of business.

## F. CURRENT ISSUES IN REGULATIONS

### 206. Fixing the Plane of Competition

#### a) *Mercantile Sabotage*<sup>81</sup>

That certain employees and local managers of the respondent for more than two years last past in a number of instances have written and sent and caused to be written and sent to mail-order houses letters containing requests for statements of the quality and quantity of lumber and building materials required for certain building purposes, the price therefor, and also containing requests for special informa-

<sup>81</sup>*Federal Trade Commission Decisions*, 1, 368.

tion furnished to bona fide customers of such mail-order houses; that the writers and senders of such letters had no intention of buying any lumber or building materials from such mail-order houses and concealed from such mail-order houses that they are engaged in the business of selling lumber and building materials, or are sending for such information for persons or firms who are engaged in such business; that such letters caused such mail-order houses annoyance and delay in the transaction of their business and damage and expense, and are written for the purpose of obtaining information which would not be furnished by such mail-order houses if it were disclosed to such mail-order houses that the writers of such letters are not bona fide prospective customers, said letters and requests having been made with the knowledge and consent of the respondent, and that the information secured as a result of said requests has been used to the benefit of the respondent, and that the respondent knew or was chargeable with knowledge that the granting of or even the consideration of such requests caused the mail-order houses expenses.

*b) New Tires from Old<sup>32</sup>*

That the said tires sold and offered for sale by respondents are rebuilt and reconstructed tires from partially used and discarded tires and are constructed substantially as follows: The fabric to a great extent used in building the tires is what is known as Egyptian duck or sea-island cotton, taken only from carefully selected, partially worn standard make tires. This fabric is carefully examined, repaired, buffed, and cleaned, and is given coats of high quality vulcanizing cement; to reinforce and strengthen the tire a reliner is then added. The cushion and tread stock, consisting of pure rubber, reclaimed rubber, and chemicals in proper proportion, are then added; to complete the reconstruction the tires are cured in large hydraulic vulcanizers.

That the aforesaid partially used and discarded automobile tires were of various makes and bore various trade-marks or brands, and that in the process of having said tires rebuilt or reconstructed the name of the maker of such tires and the original mark or brand was obliterated, and the said tires were marked or stamped with other names or brands, such other names or brands depending upon the medium through which said tires were offered for sale; that respondents for more than one year last past have caused the said tires to be marked in the manner described, and advertised the said tires under such names; that the marking of such other names or brands upon the rebuilt or reconstructed tires as aforesaid, and advertising them

<sup>32</sup>*Federal Trade Commission Decisions*, I, 385.

under such other names has a tendency to mislead the purchasing public into believing that the said tires offered for sale by respondents are new tires manufactured from new and unused material.

*c) Appearance and Reality*<sup>33</sup>

That in the course of his said business and during the period aforesaid, respondent circulated in commerce among the several States of the United States catalogues and other advertising matter which contained certain statements respecting the character of respondent's business and which were in effect as follows:

1. That respondent was a shoe manufacturer.
2. That respondent was a shoe manufacturer's distributor.
3. That shoes sold by respondent passed directly from the factory to the purchaser.
4. That respondent's only thought was "to produce the best shoes in the world for the money."
5. That respondent's life work has been the study of manufacturing and distributing shoes to the consumer.

That during the period aforesaid respondent did not at any time manufacture shoes nor act as a distributing agent of any manufacturer of shoes, and that by reason thereof the statements above described were false and misleading, and had the effect of deceiving and misleading customers of respondent and other members of the public.

*d) De Amicitia*<sup>34</sup>

The method of doing business was for the respondent to visit vessels in the harbor at New Orleans and if the vessel was under contract to do business with the respondent, the captain would be so advised. If the vessel was one known as a free ship, the captain's business would be solicited by the respondent. Upon securing the captain's business, the respondent would convey him ashore in a launch which was part of the equipment of the ship chandlery owned by respondent. The captain would be taken to respondent's place of business where headquarters would be provided for him. A room being furnished, known as the captain's room, for the captain's convenience, was used. Many times lavish entertainment was provided, consisting of automobile parties, joy rides, theater and dinner parties, tickets for a prize fight, meals, lodging accommodations, and other forms of entertainment and amusement as well as cash gratuities.

During the year 1918, \$7,281.41 was spent for the entertainment of captains and other officers of vessels in entertainment such as above

<sup>33</sup>*Federal Trade Commission Decisions*, I, 497.

<sup>34</sup>*Federal Trade Commission Decisions*, IV, 295.

described. During this year there was also paid, as gratuities, to captains and other officers of ships, the sum of \$10,976.84.

The purpose of the lavish entertainment was "to take good care of the men—make them like you so that they will continue to do business with you, but principally to keep them away from the opposition."

Most of the owners of vessels to which the respondent furnishes supplies leave the purchasing or ordering of the supplies for their ships to the captain, steward, or chief engineer, particularly the captain, and the practice of giving gratuities to such officers by the respondent and his competitors is followed to such an extent that the captain or other purchasing officer of the vessel will patronize the ship chandler who will pay the gratuity. Many captains of these vessels get small salaries and this custom of receiving gratuities enables them to increase their compensation to the extent of the gratuity paid. The gratuity is not accounted for to the owners of the vessel. The amount of the gratuity differs among different chandlers—the minimum is 5 per cent and the maximum 10 per cent of the amount of the invoice. The respondent pays 5 per cent in addition to the cost of the entertainment furnished, and he adds to his cost of doing business the amount or value of all gratuities given by him as shown by these findings, and the price to his customer is his cost of doing business plus his profit.

*c) Caveat Emptor*<sup>35</sup>

Respondent caused to be published in all the leading daily newspapers of general circulation in, and widely read by the people of, Washington, District of Columbia, and territory adjacent thereto, immediately prior to and during the holding of said special sale herein-after set forth, various other large, conspicuous advertisements concerning said special sale, which advertisements were calculated, had the capacity and tendency to, and did, mislead and deceive the aforesaid purchasing public into the belief that the entire and complete stock would be sold by so-called adjusters for cash at once, regardless of cost, and at a mere fraction of its actual commercial worth and value; that every article in said offering was of the highest quality and standard, and was part and parcel of the well-known high-grade stock habitually carried and handled by respondent in the regular course of its business; that the public would receive most sensational, startling and astounding bargains; that all representations made by respondent were genuine and bona fide, and that respondent's good reputation and its years of square dealing were a guaranty

<sup>35</sup>*Federal Trade Commission Decisions*, V, 430.



to the public against any fictitious exaggeration or deception in any representations by respondent pertaining to said special sale.

Respondent, a few days prior to and during the circulation and exhibition of the advertisements hereinbefore referred to, and others and for the purpose of the said special sale announced in said advertisements, purchased from various manufacturers and business houses in the City of New York, State of New York, and elsewhere, other large quantities of goods, wares and merchandise exceeding in cost to respondent the sum of \$20,000, and consisting of men's furnishings and ladies' garments and furs, which additional stock so purchased will be hereinafter referred to as "sale stock."

The greater part of the said sales stock was received at said place of business of respondent within a few days prior to the opening, and from time to time during the holding, of said special sale. Respondent in preparation for said special sale caused to be attached to the various articles of said sale stock price tags bearing high, fictitious regular prices which were greatly in excess of the fair value of the article so tagged, and which fictitious regular prices were stricken out by means of a pencil mark in such a manner as to leave the altered price mark legible, and bearing thereunder sale prices at which said articles were offered for sale and sold at said special sale. Said sale prices were a large reduction in amount from said fictitious regular prices, and were as great as, and in many instances largely in excess of, the fair market value of the articles so tagged. A like plan of marking and remarking of respondent's regular stock was carried out in preparation for said special sale. In further preparation for said special sale, respondent mixed and intermingled said sale stock with said regular stock and placed the two stocks so intermingled, mixed and tagged, as aforesaid, upon counters and tables in its aforesaid place of business. And in still further preparation for said special sale, respondent placarded its said store from end to end with conspicuous tags and signs bearing high fictitious prices as regular prices and also sale prices which had the tendency to and did falsely purport to the public to be large reductions from prices respondent had theretofore in the regular course of its business asked for its merchandise.

*f) Ex uno plures*<sup>30</sup>

Respondents from time to time in the two years last past up to on or about October 7, 1922, advertised in said directory of the said Chesapeake & Potomac Telephone Company under some fifty-odd

<sup>30</sup>*Federal Trade Commission Decisions*, V, 479.

additional names as set out next below for the purpose of pre-empting to themselves the use of the said names, within the City of Washington, in the District of Columbia, and of preventing other taxicab companies from operating under or using any of the said names.

A-Bee Taxi, Arcade Cab Service, Arcade Taxi, Arcade Taxicabs, Arcade Taxi Service, Bell Taxi, Bell Taxicabs, Bell Taxi Service, Blue & Gray Taxi, Blue Ribbon Taxi, Bring-You-Back Taxi, Brown & Black Taxi, Brown Taxi, Cadillac Taxi Co., Central Taxi Co., Checker Taxicab Co., Checker Taxi Co., Circle Taxi Co., City Taxi Co., Colonial Taxi Co., Columbia Hgts. Taxi Service, Continental Taxi, Crown-Taxi Co., Diamond Taxi Co., Domino Taxi Co., Ever-ready Taxi Co., Globe Taxi Co., Gray Taxi Co., Green & White, Hacks Taxi Co., Home James Taxi Co., Hudson Taxi Co., Irving St. Taxi Co., Keystone Taxi Co., Packard Taxi Co., Park Taxi Co., Park Taxi Service, Peoples Taxi, Peoples Taxi Co., Quaker Taxi, Quaker Taxi Co., Red Checker Taxi Co., Red Taxi, Red Taxi Co., Ring Taxi Co., Ritz Carlton Taxi Co., Star Taxi Co., Sunset Taxi Co., Tak-a-Cab Co., Take-U-There Taxi Co., Twentieth Century Taxi Co., Unecda Taxi Co., White Taxi Co.

*g) Bread upon the Waters<sup>37</sup>*

That respondent, during the said month of May, in the year 1917, for a period of about four weeks in the cities of New Bedford and Fall River, in the State of Massachusetts, and other towns and cities in said State, and also in the towns of North Tiverton and Stone Bridge, in the State of Rhode Island, did give to all who purchased bread from it an amount of bread equal to the amount so purchased, with the intent and purpose of suppressing and stifling competition in the sale of bread in the towns and cities named in the State of Massachusetts and the State of Rhode Island, and that all the bread so sold and given away in the State of Rhode Island, during said period when said free bread campaign was being so conducted, was manufactured at the city of Cambridge, in the State of Massachusetts, and shipped by the said respondent from the city of Cambridge to the city of Fall River, both in the State of Massachusetts, and from said city of Fall River was distributed by wagons, trucks, and other conveyances across the State line and into the State of Rhode Island, in the vicinity of North Tiverton and Stone Bridge, and there given away to purchasers of bread from said respondent, in the manner and form aforesaid, and that said bread so given away and distributed in the State of Rhode Island was transported and sold in interstate commerce across the State lines dividing the State of Massachusetts and the State of Rhode Island, for the purpose and with the effect of stifling and suppressing competition in interstate commerce, as aforesaid.

<sup>37</sup>*Federal Trade Commission Decisions*, I, 390.

## 207. Modern Trust Warfare

a) *The Call to Battle*<sup>38</sup>

It appears that five great packing concerns—Swift, Armour, Morris, Cudahy, and Wilson—have attained such a dominant position that they control at will the market in which they buy their supplies, the market in which they sell their products, and hold the fortunes of their competitors in their hands.

Not only is the business of gathering, preparing, and selling meat products in their control, but an almost countless number of by-product industries are similarly dominated; and not content with reaching out for mastery as to commodities which substitute for meat and its by-products, they have invaded allied industries and even unrelated ones.

Fruit and vegetable canning and preserving are remote from slaughtering and meat packing, but the big packers, through ownership of refrigerator cars and their branch-house system of distribution, possess special advantages for control of this field of industry. The Big Five's advantage in this field rests not so much on their ownership of canning factories, although in some branches their output amounts to more than a quarter of the total for the United States, as upon their rapidly growing control of the wholesale distribution of canned goods.

b) *Sweeping Fire*<sup>39</sup>

In the Supreme Court of the District of Columbia. *The United States of America, petitioner v. Swift & Co. and others, defendants.* No. 37623. Equity.

*Fourth*—That the corporation defendants and each of them be, and they are hereby, perpetually enjoined and restrained from, in the United States, either directly or indirectly, by themselves or through their officers, directors, agents or servants, engaging in or carrying on, either by concert of action or otherwise, either for domestic trade or for export trade, the manufacturing, jobbing, selling, transporting (except as common carriers), distributing, or otherwise dealing in any of the following products or commodities, except when such products or commodities are purchased, transported, or used (1) as supplies in operating their packing houses, branch houses, or other facilities used by them, or as an incident in the processes of manufacturing soap or packing-house products; (2) in the construction

<sup>38</sup>*Report of the Federal Trade Commission on the Meat Packing Industry* (June 24, 1919), pp. 24, 36. Washington, D.C.: Government Printing Office.

<sup>39</sup>Excerpts from the *Packers' Consent Decree*, entered February 27, 1920.

and physical maintenance of their packing houses, branch houses, or other facilities used by them; (3) in the operation of their restaurants, laundries, or other conveniences, primarily for the benefit of their employees; or (4) in combination with meat, to wit:

2. Fresh, dried, or canned vegetables, except in combination with meats, including therein, but in nowise limiting the foregoing general description, the following, to wit: Asparagus, navy beans, lima beans, peas, beets, corn, okra, potatoes, tomatoes, celery, garlic, horse-radish, and pumpkins.

3. Fresh, crushed, dried, evaporated, or canned fruits, including therein, but in nowise limiting the foregoing general description, the following, but not including the same when used as an ingredient of mincemeat, to wit: Ginger, cherries, apple butter, apricots, blackberries, peaches, pineapple, raspberries, currants, figs, gooseberries, oranges, strawberries, apples, prunes, raisins, and dates.

*c) Noncombatants Injured<sup>40</sup>*

Your petitioner is a fruit growers' cooperative canning organization, and its canneries are owned and operated by its members. Its canneries are located in the counties of Tulare, Stanislaus, and Santa Clara, in the State of California. The fruit is delivered to the canneries by the growers, and after the expenses of canning are paid, the money received from the sales of the finished product is paid to the growers, except that a small percentage of the receipts is held as a reserve fund, and shares of stock of the corporation are issued to the growers to cover the amount retained. The volume of your petitioner's business is approximately \$4,000,000 per annum, and its membership is very large.

Your petitioner avers that after the entry of the said decree of February 27, 1920, the defendant Armour and Co. notified your petitioner that the said defendant was compelled to discontinue the handling of products such as your petitioner's, and that the said contract must be considered as canceled. It is impossible to determine the full extent of the damages already sustained by your petitioner from the said decree. The said decree instantly destroyed markets which had been slowly and painstakingly built up during a long period of years and took away your petitioner's principal outlets, both foreign and domestic, for its products, and the effect of the said decree was to destroy your petitioner's said contract and to take its property

<sup>40</sup>Extracts from a petition of the California Cooperative Canners, seeking permission to intervene in order to secure a modification of the *Packers' Consent Decree*. Filed in the Supreme Court of the District of Columbia, April 22, 1922.

without compensation or due process of law. The actual and potential damages which your petitioner has suffered and will suffer by reason of the said decree and the indirect damage to your petitioner's grower members in destroying their principal markets is impossible of calculation. Destroying such channels of distribution directly and adversely affects every fruit producer in California, and in many instances elsewhere.

The said Southern and National Wholesale Growers' Associations are the concerns most actively opposed to the vacation or modification of the said decree, particularly for the reason, as hereinbefore alleged, that the direct and immediate effect of the said decree was to create and continue an absolute monopoly in the unrelated commodities in their members' favor. The said associations do not represent the public interest, but their object is to prevent competition against their members and to preserve and expand the said monopoly which the said decree created for them.

Your petitioner further avers that the wholesale grocers were and are charging the canners far too much to distribute canned goods, and California producers of dried and canned fruits know that this was and is true. One of the chief objections urged by the wholesale grocers against the reentry of the packers in distribution is that the packers would follow the practice of handling only those groceries in which there are good profits, and that if the profit on these certain lines were reduced by competition, the wholesale grocers would be put out of business. They insist that the producers of canned and dried fruits, canned vegetables, and other items, on which they make large profits, must continue to be at their mercy, and that the public must continue to pay extortionate prices for canned goods, in order that they may make these profits. Your petitioner avers that 37 cents of the consumer's dollar represents the cost of producing the article and the cost of the material that goes into it, that 14 cents thereof represents all the profits, and that the remaining 49 cents thereof represents the cost of distribution service. The producers and consumers are insistent that this cost of distribution service shall be reduced, but as the wholesalers are the hub around which the whole system of distribution is built, they are resisting to the utmost any method or means by which the people will be able to save at least a part of the 49 cents which they are compelled to pay for distribution service, out of every dollar which they are forced to spend for necessities.

The destruction of the packers' highly efficient, expeditious, and economical system of food distribution will not tend to bring the cost of food back to normalcy, nor will the denial in the future of the

rights to use such facilities keep down the high cost of food. The decree in this cause prohibits certain corporations and individuals from engaging in businesses which are open to all others, and efficiency has been almost destroyed. A continuance of the decree is not in the best interests of the public, but is seriously injurious to the producer, the packer, and the public and serves only the selfish purposes of the wholesale grocers. There are some 300 concerns engaged in this country as meat packers and in the scientific handling of meats in interstate distribution, and they have developed the most modern and economic method of distribution ever established. It is entirely against the interest of the public and the producers to withdraw the facilities of the meat packers from public use in the unrelated commodities. The public can not be benefited by destroying the competition thus created and leaving the entire system of distribution service exclusively in the control of the wholesale grocers.

Your petitioner further avers that the most simple solution of the intolerable effect produced by the said consent decree is to vacate it in its entirety, or at least so to modify it as to restore to the producers the use of the packers' facilities for distribution.

It is conceded even by the wholesale grocers that the meat packers of the United States and by the meat packers—I do not refer to the so-called Big Five, but to all those engaged in the scientific handling in interstate distribution of meats, some 300 concerns in this country—have developed the most modern and economic method of distribution yet established. As producers we insist that it is entirely against the public interest to withdraw these facilities from public use. How has the public benefited by removing this competition, thus leaving the people in the clutches of the wholesale grocers' associations?

Producers, canners, and food manufacturers, especially those who are not large enough to support complete sales and distributing organizations, should be able to avail themselves of such facilities as the packers have, to assist them in the distribution of their products. This will enable the smaller producing units to compete with large organizations on a more equal basis.

#### *d) The Cost of Unpreparedness<sup>41</sup>*

If the charge of the appellant (the California Cooperative Canneries), is true, that the wholesale grocers are using the decree against

<sup>41</sup>Opinion of Associate Justice Van Orsdel, United States Court of Appeals of the District of Columbia, granting permission to the California Cooperative Canneries to intervene in the case of the *Packers' Consent Decree* (299 Federal 908; June 2, 1924).

the packers to strengthen and build up a giant monopoly in their various and varied lines of business, there would seem to be demand for a searching inquiry as to whether or not the court is being used as an agency to restrain one monopoly and thereby promote, strengthen, and build up another. Clearly it is not the policy of the Anti-trust Act to accomplish this result.

*e) First Aid—Five Years After the Attack*<sup>42</sup>

2. The said motion of the California<sup>43</sup> Cooperative Canneries to suspend the operation of the said decree of February 27, 1920, is granted, and the operation of said decree as a whole is suspended until further order of the court to be made, if at all, after a full hearing on the merits, according to the usual course of chancery proceedings.

*f) What Price Glory*<sup>44</sup>

If we have destroyed that efficiency which might result in lower prices we have destroyed autocracy, and returned to the democratic kind of government in business.

## 208. The Problem of Price Maintenance<sup>45</sup>

BY GERARD C. HENDERSON

The business basis of the attempt to maintain set prices, both wholesale and retail, is much the same as in the case of trade discounts. A manufacturer produces an article, generally under a trademark or name, and advertises it on a lavish scale in the national market. A minimum of quality is of course a *sine qua non*, but apart from this, commercial success will depend, first, on creating an effective demand among consumers, and, second, upon persuading the army of wholesale and retail distributors to give satisfactory and aggressive service in moving the article to the consumer. Technically and legally the relation between manufacturer and wholesaler is that of vendor and purchaser, and the manufacturer may have no direct relation whatever with retail trade. Actually, however, his eye is on the ultimate consumer. His advertising and his sales policy are directed toward selling the article to the man who uses it, and all inter-

<sup>42</sup>Order of Justice Jennings Bailey, Supreme Court of the District of Columbia, filed May 1, 1925.

<sup>43</sup>Statement of Attorney General A. Mitchell Palmer before the Committee on Agriculture and Forestry of the United States Senate, January 7, 1920.

<sup>44</sup>Adapted from *The Federal Trade Commission*, pp. 287-90. Copyright by Yale University Press, 1924.

mediate factors in the process of distribution are merely agencies which he employs for the purpose. Since the manufacturer is directing the sales campaign, he will expect to determine for himself the major questions of retail sales strategy, instead of leaving them to the haphazard decision of several thousand retail stores. He will determine the scope and character of the advertising, and the size and shape of the package, and, since price is one of the principal factors of sales strategy, he will expect to prescribe to his retail distributors the price at which the article shall be offered to the public.

Obviously, if he expects the retailer to carry out his sales policy, instead of acting merely as a buyer and seller of personal property, the manufacturer must be prepared to compensate him on a scale that will make the business satisfactory. Since large-scale operations must be to some extent standardized, he will arrive at a fixed allowance per package or other unit, which will in his opinion make the business sufficiently attractive to the average retailer to induce him to handle the product, and he will arrange, through wholesalers, to supply the retailer with the product at a price sufficiently below the set retail price to net him, upon resale, the amount allowed. The wholesaler also, performing as he does an essential service, must be assured a fair return, hence the manufacturer allows him a further standard discount, sufficient in amount to assure good service. The price to the consumer and the discounts to retailers and wholesalers are as much elements of the manufacturer's business policy as are the salaries he pays to his own officers and the price he pays for his materials.

To be effective, however, such a policy must be enforced, and it may be necessary to adopt means to insure that wholesalers and retailers comply with the manufacturer's instructions. The manufacturer cannot afford to advertise an article widely at a stated price, say, a dollar watch or a five-cent cigar, only to find that his retailers are selling it at a different price. Moreover, he feels himself under a certain obligation to protect the wholesaler and distributor, who is faithfully carrying out his policy, against the competing dealer, who is cutting prices. A contract is the most obvious means of securing the performance of a business understanding, and it may be advisable to have a corps of agents to report on sales methods of the various distributors, and to adopt disciplinary means in flagrant cases. In addition, precautions must be taken to prevent large quantities of the article from getting in the hands of dealers who have not agreed to adhere to the sales policy in question, and who for their private ends may see fit to engage in "predatory" price cutting. In view of the large amounts at stake, it is obvious that the technique of such a system may be brought to a high degree of perfection.



Such is the price-maintenance system from the point of view of the manufacturer. The two principal antagonists of the system are the department store and the chain store, and of course their version is a different one. These retail establishments, large in resources and often aggressive in management, quite naturally insist on having a sales policy of their own. They may be unwilling to act merely as agencies engaged in carrying out the sales policies of a manufacturer. As compared with the small retail store, the department or chain store is generally a large advertiser, and it is a part of the advertiser's art to create for his establishment a distinct personality which customers will remember. One may make a specialty of sales at 5 and 10 cents. Another may use as an advertising "feature" a custom of selling 50-cent articles for 48 cents, or one-dollar articles at 97 cents. Another may rely on special "sales," cut-price campaigns, bargain counters, and similar artifices. Such devices are of course utterly inconsistent with a policy of set prices, or indeed with any system of distribution which regards the retailer as a mere agency in the service of the manufacturer.

It is undoubtedly true to a large extent that chain stores and department stores, owing to rapid turnover and large volume of sales, can handle many products at a lower unit cost than can the smaller retailer, and hence feel entitled to compete for the retail trade by operating on a smaller margin of profit. But the prime motive seems to be the advertising value of the cut price, and from this point of view, of course, the more thoroughly the set price is enforced elsewhere, the greater the effect of a much advertised cut of a few cents. Hence great efforts are directed toward securing, at wholesale or even at "distress" prices, supplies of nationally advertised articles which the "legitimate" dealers are expected to sell only at a set price, and sales of such articles at cut prices are heavily advertised. Correspondingly great are the efforts of the manufacturers and regular dealers to thwart their efforts.

The controversies engendered by this struggle have often been before the Federal Trade Commission and much before the courts.

#### 209. The Legality of Price Maintenance<sup>45</sup>

The facts show that the Beech-Nut system goes far beyond the simple refusal to sell goods to persons who will not sell at stated prices, which in the Colgate case was held to be within the legal right of the producer.

<sup>45</sup>From the opinion of the court in the case of *Federal Trade Commission v. Beech-Nut Packing Co.*, 257 U.S. 441 (19-2). The decision of the court won by a five-to-four decision.

The system here disclosed necessarily constitutes a scheme which restrains the natural flow of commerce and the freedom of competition in the channels of interstate trade which it has been the purpose of all the antitrust acts to maintain. In its practical operation it necessarily constrains the trader, if he would have the products of the Beech-Nut Company, to maintain the prices "suggested" by it. If he fails to do so, he is subject to be reported to the company either by special agents, numerous and active in that behalf, or by dealers whose aid is enlisted in maintaining the system and the prices fixed by it. Furthermore, he is enrolled upon a list known as "Undesirable Price Cutters," to whom goods are not to be sold, and who are only to be reinstated as one whose record is "clear" and to whom sales may be made upon his giving satisfactory assurance that he will not resell the goods of the company except at the prices suggested by it, and will refuse to sell to distributors who do not maintain such prices.

From this course of conduct a court may infer, indeed cannot escape the conclusion, that competition among retail distributors is practically suppressed, for all who would deal in the company's products are constrained to sell at the suggested prices. Jobbers and wholesale dealers who would supply the trade may not get the goods of the company, if they sell to those who do not observe the prices indicated or who are on the company's list of undesirables, until they are restored to favor by satisfactory assurances of future compliance with the company's schedules of resale prices. Nor is the inference overcome by the conclusion stated in the Commission's findings that the merchandising conduct of the company does not constitute a contract or contracts whereby resale prices are fixed, maintained, or enforced. The specific facts found show suppression of the freedom of competition by methods in which the company secures the cooperation of its distributors and customers, which are quite as effectual as agreements express or implied intended to accomplish the same purpose. By these methods the company, although selling its products at prices satisfactory to it, is enabled to prevent competition in their subsequent disposition by preventing all who do not sell at resale prices fixed by it from obtaining its goods.

The order should have required the company to cease and desist from carrying into effect its so-called Beech-Nut policy by cooperative methods in which the respondent and its distributors, customers, and agents undertake to prevent others from obtaining the company's products at less than the prices designated by it—(1) by the practice of reporting the names of dealers who do not observe such resale prices; (2) by causing dealers to be enrolled upon lists of undesirable purchasers who are not to be supplied with the products

of the company unless and until they have given satisfactory assurances of their purpose to maintain such designated prices in the future; (3) by employing salesmen or agents to assist in such plan by reporting dealers who do not observe such resale prices, and giving orders of purchase only to such jobbers and wholesalers as sell at the suggested prices and refusing to give such orders to dealers who sell at less than such prices, or who sell to others who sell at less than such prices; (4) by utilizing numbers and symbols marked upon cases containing their products with a view to ascertaining the names of dealers who sell the company's products at less than the suggested prices, or who sell to others who sell at less than such prices in order to prevent such dealers from obtaining the products of the company; or (5) by utilizing any other equivalent cooperative means of accomplishing the maintenance of prices fixed by the company.

## 210. The Functions of Trade Associations<sup>16</sup>

BY HERBERT HOOVER

The trade association as a facility for the promotion and self-regulation of industry and commerce has become an important American business institution. There are several hundred organizations in the United States which clearly come within the strict definition of the term and more than a thousand others which undertake to perform some of the services rendered by the avowed trade associations.

Very few of the trade associations whose work is set forth herein perform all the activities outlined. Some of them have made only a start, while others have undertaken a large percentage of the work.

The American Trade Association executives have defined a trade association somewhat as follows: A trade association is an organization of producers or distributors of a commodity or service upon a mutual basis for the purpose of promoting the business of its branch of industry or commerce and improving its service to the public. The purpose and aim of a trade association, then, is to deal with all questions of general application in the branch of industry or commerce it serves, and so to develop its field that the enterprises in it may be conducted with the greatest efficiency and economy.

Fortunately, trade-association activity is spread over a sufficient span of years to allow one to segregate successfully individual activities with an eye to analysis and interpretation. There are outstand-

<sup>16</sup>Adapted from *Trade Association Activities*, pp. 1-8, issued by the United States Department of Commerce, 1923.

ing examples of substantial constructive endeavor in a great many lines of trade-association activity.

1. *Statistics.*—Most trade associations have evidenced active interest at some time or other in the collection, compilation, preparation, and dissemination of statistical material relative to their industries or trades. They have been considered with particular emphasis as to production, stocks, shipments, or cancellations. The curves in the business cycle from activity to depression have been less disastrous in those industries or trades where accurate, lawful statistical data have been available to all. Fundamentally it is impossible for business men to form those vital judgments as to their future course of action in the wise and safe direction of their activities unless they are informed as to the changing currents of production and consumption, not only in their own lines, but also in other lines of business, which indicate broader currents of economic life. The only criteria are statistics, and if industry is to march with reasonable profits instead of undergoing fits of famine and feast, if employment is to be held constant and not subjected to vast waves of hardship, there must be adequate statistical service.

2. *Legislative activities.*—The interest of any one industry or trade, to be sound in the ultimate analysis, must be the public interest. In their legislative activities many trade associations have borne this axiom foremost. Greater uniformity in state laws affecting the public and industry and commerce may be brought about and the views of a trade as a whole can be properly laid before legislative bodies only through association. The open preparation and presentation of such matters is far more consonant with proper development of public life than the private lobbying of the few or powerful.

3. *Simplification and standardization.*—Waste in industry is acknowledged. Its elimination in a vast area can be accomplished only by collective action in a trade. The simplification of dimensions in articles and parts, the establishment of definite grades and qualities, not only reduce the cost of production and the volume of goods required in distribution, but they also increase the actual basis of competition. Hundreds of millions of dollars have been saved through the adoption of principles laid down in such programs, not alone to the business groups concerned, but to the ultimate consumer. They have brought about lower prices, through attacking directly the costs of raw material, inefficient plant operation, and unnecessary stock maintenance. The very large movement in this direction is today the most promising field for reducing the margins between the producer and consumer, but no progress can be made without collective action.

4. *Cost accounting.*—Goods must be sold at a profit or industry and commerce will not survive. Losses often were confused with profits, all for the lack of knowledge of the fundamentals of cost accounting. So today the trade association is proving itself the most potent organized influence in the study of costs in industry and trade. Standard costs systems applicable to the peculiar conditions are being developed within each business group. All tend to more scientific knowledge of business and ultimately lowered costs.

5. *Credit and collection activities.*—Credit is the vehicle of trade. Misdirected credit must be corrected through proper and legal collection procedure. With its particular broad-visioned and unbiased perspective of the business transactions of its own group, the trade association becomes a peculiarly well-fitted agency in these service functions of business conduct. The trade association becomes a trusted and reliable clearing house for the industry's vital credit and collection information. While it is true that credit information has been used for restraint of trade, this is not its primary or usual purpose and obviously should be prohibited.

6. *Trade disputes and ethics.*—Business has always entailed the strife of competition. It always will and it always should. However, there are rules and principles of fair play that must be regarded in trade relations, and in the development, establishment, and maintenance of these rules the trade association has come to be a potent factor. Take commercial arbitration, standard contract forms and trading rules, trade terminology and nomenclature—each is a direct step toward saner business practice. The stamping out of unfair competition and misrepresentation and the adoption of fair practice principles—codes of ethics—have been real accomplishments of scores of trade associations in the direction of better business.

7. *Employee relations.*—Trade association after trade association is now developing the necessary preliminary stages of more equitable and advanced phases of employee relations. In most cases it is largely a matter of research into the tremendous problems involved—selection of personnel, education, welfare work, accident prevention, employment principles, and collective agreements.

8. *Insurance.*—Considering the vast sums expended in insurance against risk and loss, it is no more than logical that trade-association activity has taken root in this important field. This has not grown, however, so much from a competitive business point of view, but rather as a matter of education and analysis. Items of costs of doing business must be understood, adjusted, and cut to the lowest point commensurate with efficiency and satisfactory accomplishment.

9. *Public relations.*—With the growth of specialization in busi-

ness, contact with the ultimate consumer or purchaser has become more and more complex. Buyer and seller no longer have the personal relationship that prevailed in generations passed. Thus each industry, each trade, has its peculiar problems attendant upon merchandising itself or its wares, and just so each trade association is proving itself the dominating factor in the development of the public relations of its own business group.

10. *Traffic and transportation.*—Business cannot be consummated until goods readily find their way to market. The way must be direct and unobstructed. It must be efficient in its operation and economical. To insure all this the individual cannot work single handed. His interests must be pooled with those of others, and the united group then operates for the efficient transportation of the world's commodities. The trade-association traffic bureau thus has many problems before it. There are rate matters, classification, car supply, auditing of transportation bills, the study of competitive transportation agencies, and the real force of such competition. The trade association speaks as to the voice of industry in transportation problems.

11. *Commercial research.*—"Why does distribution cost so much?" the business executive is asked. And this is the very question commercial research is pounding away at today in so many trade organizations. Waste must be run down and eliminated. The consumer's requirements must be ascertained, acknowledged, and served with economy. All this is recognized by the trade association, and whether it be domestic or foreign distribution—purchase or sale—it must be carried on with complete knowledge and real efficiency.

12. *Industrial research.*—Manufacturing processes improve with understanding gained through actual operation. Industrial research is the study of such operation. The trade association functions with remarkable success in the promotion of scientific industrial research. More and more is the value of scientific research coming to be appreciated, but in many industries there is little hope of exhaustive research by the establishment of moderate-sized units. Therefore, in many trades laboratories are being supported jointly and are making large contributions to reduction of costs in raw materials and processes and in the better adaptation of products to consumer's needs. Industrial research, though not applicable to all industrial groups, will bring gigantic financial return to industry as a whole in its more general application through trade-association activity.

13. *Government relations.*—Whether the attitude of business be to "keep government out of business" or to the contrary, it nevertheless is true that the government in its manifold activities directly im-

pinges upon commerce and industry at many points. The control of public utilities, the restraint-of-trade acts, the large volume of government expenditures, all materially affect business. Official trade information, official industrial statistics, official standards, procedure, and practice are being sought by the trades, and the government is constructively active in co-operation with business to develop these fundamental services.

The constructive purposes of trade associations have unfortunately been confused with the minority of activities which have been used as a cloak for action against public interest. It is also true that a vast amount of action in public interest has been lost and even great national calamities brought upon us by lack of co-operative action. All who know the situation in such matters realize that the problem of co-operative action are mainly the concern of smaller businesses.

If we are to have a comprehensive economic system, the time has come when we should take cognizance of the necessities. The growing complexity of our industrial life, its shift of objective and service, require the determination of an economic system based upon a proper sense of rightful co-operation, maintenance of long-view competition, individual initiative, business stability, and public interest.

#### 211. The Legality of Trade Associations<sup>47</sup>

The activities of defendant, on which the Government bases its case for an injunction, may summarily be stated as follows: The Government charges that the defendants, through the activities of the Association, control prices and production of cement within the territorial area served by the several defendants in the following manner:

1. By the use of "specific job contracts" for future delivery of cement, accompanied by a system of reports and trade espionage having as its objective the restriction of deliveries of cement under those contracts.
2. By compiling and distributing, among the members, freight rate books which give the rate of freight from arbitrary basing points to numerous points of delivery within the territorial area served by the several defendants;
3. By exchange of information concerning credits;
4. By activities of the Association at its meetings.

<sup>47</sup>Adapted from the opinion of the Supreme Court of the United States in the case of *Cement Manufacturers Protective Association v. The United States of America*, decided June 1, 1925. No. 551, October Term, 1925. The opinion is by Mr. Justice Stone.

Since there is no exchange of information among the defendants with respect to contracts for the sale of cement for immediate delivery, which constitutes more than 60 per cent of the business, the Government's contention before this Court centered upon the use of the specific job contract by defendants and their activities in connection with such contracts.

The specific job contract and the practices of the trade with respect to making deliveries in performance of those contracts were customary in the trade long before any of the collective activities complained of in this case. They are contracts "whereby a manufacturer is to deliver in the future, cement to be used in a specific piece of work, such as a particular building or road, and the obligation is that the manufacturer shall furnish and the contractor shall take only such cement as is required for or used for the specific purpose." These contracts have, by universal practice, been treated by cement manufacturers as, in effect, free options customarily made and acted upon on the understanding that the purchaser is to pay nothing until after the delivery of the cement to him; that he is not obligated in any event to take the cement contracted for unless he chooses to; that he is not held to the price named in the contract in the event of a decline in the market price; whereas the manufacturer may be held to the contract price if the market advances and may be held for the delivery of the full amount of cement required for the completion of the particular piece of construction described in the contract. The practical effect and operation of the specific job contract therefore is to enable contractors to bid for future construction work with the assurance that the requisite cement will be available at a definitely ascertained maximum price.

In view of the option features of the contract referred to, the contractor is involved in no business risk if he enters into several specific job contracts with several manufacturers for the delivery of cement for a single specific job. The manufacturer, however, is under no moral or legal obligation to supply cement except such as is required for the specific job. If, therefore, the contractor takes advantage of his position and of the peculiar form of the specific job contract, as modified by the custom of the trade, to secure deliveries from each of several manufacturers of the full amount of cement required for the particular job, he in effect secures the future delivery of cement not required for the particular job, which he is not entitled to receive, which the manufacturer is under no legal or moral obligation to deliver and which presumably he would not deliver if he had information that it was not to be used in accordance with his contract. The activities of the defendants complained of are directed



toward securing this information and communicating it to members and thus placing them in a position to prevent contractors from securing future deliveries of cement which they are not entitled to receive under their specific job contracts, and which experience shows they endeavor to procure especially in a rising market.

The custom in the cement trade of selling cement at a delivered price which includes the mill price, the price of bags and freight charges, was an established trade practice before the organization of the defendant association. As required by the by-laws of the defendant association, it has distributed to its members freight rate books, listing freight rates from established basing points to practically every city and town in the northeast section of the United States. The freight rates contained in the freight rate book are compiled from the official tariffs and translated from the rate per ton of the official tariffs into the rate per barrel of 380 pounds, the unit for the sale of cement. Similar lists of freight rates embracing substantially the same subject matter were prepared and used by individual manufacturers before the organization of the defendant association.

Manufacturers customarily and for the purpose of convenient conduct of their business maintain a uniform base or factory price, so far as the customers of the individual manufacturer are concerned. That is to say the business is conducted on a "one-price" basis. In order, however, to determine the delivered price, there must be added to the factory price of a given manufacturer, the cost of transportation to the point of delivery. Prompt quotations of a delivered price therefore involve the ability to carry out promptly the mechanical process of adding to the mill price, the cost of transportation to the point of delivery. Lists of freight rates, in convenient and readily available form, are therefore necessary adjuncts to the quotation of delivery prices for cement.

The use of basing points for the purpose of computing freight rates appears not to have been the result of any collective activity on the part of defendants or cement manufacturers generally, nor were they arbitrarily selected. Their use is rather the natural result of the development of the business within certain defined geographical areas. When a manufacturer establishes his factory at a given point of production and sells his product in a territory which is contiguous freightwise to his factory, other mills established in the vicinity and serving the same territory, in order to compete in that territory, must either secure a like freight rate or they must sell at a mill price which will permit them to deliver cement at a price which will enable them to compete with the mill or mills located at the basing point which is the principal point of production in the territory

which is contiguous in point of freight rate to the basing point. In either case the freight rate from the basing point is an essential element in making a delivered price. The freight rate book, therefore, not only enables the manufacturer to calculate a delivered price on the basis of his own mill price, which he determines, to points in the territory nearest in point of freight rate to his own mill, but it enables him also to determine at once the freight differential which he must offset in his mill price in order to compete with other manufacturers serving any other given territory.

Members of the Association render monthly reports of all accounts of customers two months or more overdue, giving the name and address of the delinquent debtor. There are also reports showing the general total of delinquent accounts in comparison with those for the last twelve months and reports of payments of accounts placed in the hands of attorneys. The Government neither charged nor proved that there was any agreement with respect to the use of this information or with respect to the persons to whom or conditions under which credit should be extended. The evidence falls far short of establishing any understanding on the basis of which credit was to be extended to customers or that any co-operation resulted from the distribution of this information, or that there were any consequences from it other than such as would naturally ensue from the exercise of the individual judgment of manufacturers in determining, on the basis of available information, whether to extend credit or to require cash or security from any given customer.

The Constitution and By-laws of the Association provided for monthly meetings. A full and accurate stenographic report of all discussions at meetings was kept and made available to the Government and as is stated in the Government's brief "the Association's counsel was present at every meeting to steer the discussions away from illegal subjects and to have them confine the matters strictly within the purview of the By-laws and the Constitution of the Association." There was no discussion at these meetings of current prices; no comment on conditions or as to prospect of market, production or prices. Excerpts from the minutes are set out by the Government's brief at great length indicating that from time to time individual representatives of the companies expressed themselves on subjects of minor importance. There is no evidence that any agreement was reached affecting any of the matters discussed; nor does the Government point specifically to any uniformity of trade practice or custom followed, which is urged as even inferentially the result of activities at meetings.

That a combination existed for the purpose of gathering and dis-

tributing these two classes of information is not denied. That a consequence of the gathering and dissemination of information with respect to the specific job contracts was to afford to manufacturers of cement, opportunity and ground for refusing deliveries of cement which the contractors were not entitled to call for, an opportunity of which manufacturers were prompt to avail themselves, is also not open to dispute. We do not see, however, in the activity of the defendants with respect to specific job contracts any basis for the contention that they constitute an unlawful restraint of commerce.

Nor, for the reasons stated, can we regard the gathering and reporting of information, through the co-operation of the defendants in this case, with reference to production, price of cement in actual closed specific job contracts and of transportation costs from chief points of production in the cement trade, as an unlawful restraint of commerce; even though it be assumed that the result of the gathering and reporting of such information tends to bring about uniformity in price.

## G. THE FUTURE OF MONOPOLY

### 212. The New Approach<sup>48</sup>

BY GERARD C. HENDERSON

In the history of the relation of government to business, the legislation of 1914 marked, so far as the United States is concerned, a change of attitude in two important respects. I refer to the legislation rather than to the Federal Trade Commission itself, because the change does not yet appear to be fully reflected in the Commission's work.

The legislation recognized, in the first place, that the trust problem was not a single problem but a large number of problems. It had usually been supposed that there was a form of economic wickedness, known as monopoly and restraint of trade, which could be identified by name and denounced in a criminal statute. It was, in the popular mind, like stamping out robbery and arson. In the new legislation, the emphasis was shifted from monopoly and restraint of trade, as such, to the host of trade practices and methods of competition by which the objectionable results had been achieved. As a matter of draftsmanship, the details were not very successfully carried through, but the change in point of view was none the less apparent. This of itself was a great gain. The Standard Oil Company had used methods of competition which had aroused the resent-

<sup>48</sup>Adapted from *The Federal Trade Commission*, pp. 339-42. Copyright by Yale University Press, 1924.

ment of competitors. The methods were enumerated and described in the opinion of the Supreme Court. But whether the practices themselves were condemned, or whether the vice lay in the combination of them all, coupled with the size and power of the concern which used them, no reader of the opinion could tell. All that was certain was that the result was an illegal monopoly. In the new legislation, attention was directed toward the competitive methods and practices themselves, and machinery was devised by which these methods and practices could be isolated and studied.

The second departure from the traditional point of view was even more important. Neither the Trade Commission Act nor the Clayton Act was a criminal statute. The machinery set up to administer them was corrective rather than punitive. The traditional view had been that monopoly and restraint of trade were species of crimes which needed the attention of the district attorney and the deterrent influence of a jail sentence. A long and discouraging experience with Sherman Law indictments had finally satisfied the country that the problem could not be dealt with in this way. It was only in those flagrant cases in which economic power had been brutally misused, and selfish ends gained by the ruin of innocent men, that juries could be brought to the point of moral indignation at which a conviction was possible. The usual case, however, involved merely a conflict of interests between different economic groups. A large manufacturer might be in conflict with a group of wholesalers. An association of jobbers might be pitted against a mail-order house or a department store. A retail association representing the group interests of its members, might be at odds with a single retail trader, determined to pursue his own policy. Or it might be a case of a whole industry in conflict with a group of consumers. Either side in such controversy might, it is true, use weapons which would shock the moral sense, and fall within the popular conception of criminal conduct. The controversy itself, however, would not be a conflict between right and wrong, but a conflict between opposing interests.

Such a conflict calls for adjustment rather than for a moral crusade. Everyone knows how useless in a negotiation is the man who sees a profound moral issue in every small business difference. To remain on friendly terms with a man although your economic interests are opposed to his, to recognize that men may have legitimate business conflicts, to concede that your competitor may be an honest man and a gentleman, these are signs of the growing maturity of civilization, just as the trust-bursting fervor of the first decade of the century and the Crusades of the Middle Ages were signs of immaturity.

Of course, in the field of government this conception of the trust problem calls for a certain degree of abnegation on the part of the men engaged in administering the law. A crusade is more spectacular than a scientific inquiry, and a moral issue has greater political value than a practical adjustment. It is precisely for this reason, however, that the enforcement of the new laws was intrusted to a non-partisan commission, to be composed of men of training and experience whose tenure would not depend upon political considerations. It seems to me that from this point of view the Commission has a great and important opportunity. I conceive it to be, potentially, an expert tribunal, of steady tenure and scrupulous judicial pose, firm in the public interest but impartial as between the private economic groups affected by its action. I do not look upon it as a prosecuting agency, at war with the forces of evil. Where a crusade is necessary, as of course it may be at times, the matter should be left to the political branch of the Government. The Commission's procedure should be such that a trade practice or a method of competition, deemed by some to be injurious and defended by others, could be brought before it for calm and impartial study, the facts and arguments developed in a formal procedure, and an order issued which, if confirmed in the courts, would settle for the benefit of the business world whether or not the practice was consistent with the letter and spirit of the law. The Commission can be relieved of the stigma of partiality now conveyed by the very words of the statute. I see no reason why it should not realize fully the promise of the legislation of 1914.

### 213. The Integration of Industry<sup>49</sup>

BY L. K. FRANK

It is customary, in commenting upon the industrial revolution, to emphasize the increase in production consequent upon the adoption of machines in place of hand tools. But it is equally important to notice that the machine process split up production into an ever growing number of separate processes. Under the handicraft scheme the single individual, or partnership, undertook the direction and management of the complete process of production from raw materials to finished goods. It now becomes necessary for each of them to confine his operations to the conduct of one or perhaps two steps in this total industrial process. With the multiplication of separate factory enterprises, each dependent upon the stage technically prior for

<sup>49</sup>Adapted from "The Significance of Industrial Integration," *Journal of Political Economy*. Copyright by the University of Chicago, 1925.

obtaining its raw materials and upon the stage technically subsequent for disposing of its products, some sort of correlation has to be established. At first this need was met by simple contract and sales at an agreed-upon price. But as the industrial equipment became more complex and more widely distributed, there was a development in the elaboration of pecuniary devices and operations and the organization of markets for facilitating buying and selling, speculating in commodities and the like.

Under the prevailing scheme of separately owned establishments, carrying on one or two steps of the industrial process, competition among the several producers of the same stage was provoked by the necessity of disposing of their product on a price basis. But this competition not only limited profits; it frequently prevented the producer from selling his goods at cost. Hence arose various schemes and arrangements whereby the producers in one stage of the industrial process pooled their business operations. Thus it was possible to improve the strategic business position of the combined sellers. Thus occurred an exceedingly interesting development in the rise of industrial combinations.

Unlike this vertical integration is an attempt to bring together under one management the separate stages of the industrial process which technically require unified direction and control. It has appeared because it has become both feasible and desirable to bring a number of consecutive stages of production under one managerial control.

Now this process of industrial unification is no simple operation of adding on to an existing factory building and organization a number of new wings and new departments. The inclusion of minor and subsidiary processes, such as repair shops, tool-making departments, and the like, in the factory scheme, began several decades before the end of the nineteenth century, but it involved no great change in managerial practice or social arrangement. It was not, however, until late in the nineteenth century, probably first in the oil industry, and later in the iron and steel industry, that real vertical integration began with the incorporation under one management of a number of different stages of production, carried on in separate plants at different locations. This, indeed, marked a new step, for at once it set a task for management, of directing and controlling the operation of several different industrial processes as one process.

To this end there has developed during the past twenty-odd years an entirely new technique which is variously called "cost accounting," "administrative statistics," "planning and control," or "industrial engineering." In detail its function is to plan what work is to

be done and the machinery and personnel to do it, to delegate the authority to have plans carried out, and to record and measure the results accomplished, the costs incurred, and the unfinished portions of the task. By such a technique it becomes possible to supervise one or a dozen organizations carrying on distinct operations at widely separated locations and to co-ordinate them into a single industrial process, so that materials flow from plant to plant, from stage to stage, as readily and as surely as they pass through a single machine or department. Thus it becomes possible to achieve that technical co-ordination of process which the pecuniary operations of buying and selling could rarely approximate.

*The great advantages accruing to an integrated industry, which grow cumulatively with the extension of the integration, are found in the assurance of an adequate and dependable source of supplies, on the one hand, and a certain "market" for its product, on the other, for each stage in the industrial process. For the production in each stage of the entire industry is carried on in accordance with a budget, wherein are figured the requirements of each commodity in each stage. Hence the staff in each plant has a definite task to perform in a definite time, with the necessary raw materials and supplies and the disposition of its product provided for.*

It is instructive to contrast this method of co-ordinating the several stages of production in an industry, with reliance upon the pecuniary relationships of buying and selling, where production is governed by fluctuating market prices, a multitude of individual contracts or orders subject to cancellation, the guesses and expectations of salesmen, and above all by the widespread practice of speculative purchasing which alternately overbuys and then refrains from buying while using up accumulated stocks. It might be said that integration not only supersedes this variable personal relationship between producing plants, but indeed frees industry and industrial operations from direct pecuniary control.

To one brought up in the faith that individual initiative and competitive private enterprise are the foundation of sound economic activity, these developments must indeed appear ominous. Yet, integration of formerly independent plants is an inevitable step in the evolution of machine industry. Viewed with a little perspective, the movement toward integration is not so much a new departure as a return to the unified direction and control of production which obtained in the days preceding the coming of machine industry.

It is usual to think of society as divided between producing and consuming interests, but we frequently fail to realize the magnitude

of the pecuniary transactions which occurs between business men as producer-buyers and producer-sellers or distributor-buyers and distributor-sellers, in which the final users of the goods do not participate. From the point of view of industrial management, these transactions are not only unnecessary but often a real obstacle to effective use of industrial equipment, as we see in the several periods of business cycles. When we detach ourselves from the traditional attitude toward business, it is obviously absurd that our industrial activities should be conducted by men who are intent upon deriving the largest pecuniary gain from their relations with other managers of industry through bargaining, which is continually frustrating a well-balanced program of production in all stages of industry.

The growth of integrated industry is, however, much more than an industrial development; it is the continued sweep of the industrial revolution fulfilling that great change in industry and in social life. The further extension of integration in the twentieth century will probably entail social changes almost as great as those witnessed in the nineteenth century. For many of the characteristic features of an industrial money economy and its accompanying social life will pass away, with the further growth of integrated industry.

For one thing, integration will largely reduce, if not eliminate, business cycles, for the simple reason that it will remove the business control of industrial processes, thus permitting that continuous non-fluctuating operation which is the peculiar function of the machine. A society in which production is carried on continuously and fairly evenly will be a society with no periodical unemployment crises. The large shifts of occupations from industry to industry, which occur in periods of expansion and contraction, will also disappear, along with fluctuating wage rates and earnings.

Looked at in perspective, one might expect to see a return to the condition of social stability which obtained from time to time in England before the nineteenth century. But such stability will be something rather new to western society, since it is probable that, under a so-called democratic government, with an income and inheritance tax, with a decreasing number of hours of work, and with a large reduction in the number of persons engaged in "pecuniary employments," our social life will be greatly altered. It is difficult to conceive of any part of our social life today which will not be changed by integration of industry with all that such a development implies.



214. Standardization and Combination<sup>60</sup>

BY HOMER HOYT

The advocates of standardization may be surprised to find that they are committed to a policy of concentration of industry. Yet that is the inevitable goal toward which their principles are carrying them. Standardization and the competitive principle cannot live amicably together; one always tends to destroy the other.

Thus if under competitive conditions a number of rival firms undertake to manufacture the same standardized article, competition is entirely on the basis of price. Hence the concern which can produce at the lowest cost will undersell its rivals and drive them from the field. Every inroad by the larger concern upon the markets of its rivals increases its output and lowers its overhead cost per unit. Correspondingly it decreases the output and increases the cost per unit of product of the smaller firm. Where unit costs decrease with volume the larger concern can use the trade gained by price cutting as a basis of lowering prices still more, while the smaller concern with every loss of sales is either forced to raise prices or to increase its deficit at a progressive rate. Wherever standardization and fixed capital make mass production more economical, competition will die of its own excesses and a combination of firms will be the only form of business organization.

Even as competition thus fails when standardization is master, so also is standardization overthrown when competition is kept in the saddle. For the only way by which rival manufacturers can escape excessive price competition is to transfer competition to the plane of quality. This involves splitting up the standardized product into many brands that are distinguished from each other by slight difference in size, shape, color, or design. Since the consumer cannot properly appraise the pecuniary value of these intangible and æsthetic differences, he cannot readily compare prices of different brands and he thereby loses his power to stimulate price competition between manufacturers. On the other hand, when the consumer makes his own specialty, he enjoys a narrow range of monopoly control over price, measured by the consumer's preference for his particular brand. Through unique patterns and ornamental designs that appeal to a narrow market and require frequent changes in the manufacturing process, quality competition prevents a realization of the advantages of large-scale production.

<sup>60</sup>Adapted from "Standardization and Its Relation to Industrial Concentration," *Annals of the American Academy of Political and Social Science*, LXXXII, 271-77. Copyright, 1919.

Hitherto in America competition has prevailed over standardization. This has given the consumer almost unlimited power in directing the styles of goods to be produced. Manufacturers have not attempted to exercise autocratic power over our daily lives. American consumers have not been forced to lie in iron beds of Procrustes of standard dimensions, but they have had their choice of iron, brass, and wooden beds of manifold sizes and designs. The discriminating judge of chairs has had 518 patterns of piano stools and a countless legion of ordinary chairs from which to make his choice. Anyone who was particular about the appearance of the interior of his house could spend his lifetime looking over samples of wall paper. From the cradle to the grave, from the many varieties of cribs and baby carriages to the profusion of styles in burial shrouds and coffins, the consumer has been unrestricted in his choice.

Yet to satisfy his eccentric notions the consumer is compelled to forfeit the benefits of standardization. He cannot buy a standard limousine, standard units of clothing graded according to wool content, and standard canned goods of guaranteed purity, weight, and quality. Instead he must select what he desires from the bewildering array of similar brands in our national window display. Not only must he spend his time in appraising superficial differences and in educating himself against the wiles of the salesman, but he must spend money for his liberty of choice. The extra materials and labor required by ornamental features, the risk of special brands going out of style, and the luxury of small-scale production must be paid for by him. The manufacturer loses because his market is limited. Society loses on account of a wasteful application of its resources.

Some of this individuality of style is worth its social cost. A society in which everyone rode in Ford cars and lived in uniform cement houses would be monotonous, even if economical. But, with all due allowance for necessary minima, further indulgence of individual eccentricities merely lessens the surplus capital that might be used for the cultural expression of a people along lines where fine differences count for the most in artistic effect. It seems that our long-cherished liberty of having so much to choose from that we cannot make an intelligent choice is not worth clinging to. The economy of standardization makes a strong appeal to consumer and producer in time of peace. When the exigencies of war also demand standardization the American people were quite willing to sacrifice its theoretical freedom of selection. The war compelled a degree of unification and standardization in American industry that has never

existed before. American business men who standardized their products now hesitate to return to the old competitive struggle.

Combinations were necessary to secure the war-time standardization. The war-service committees that were organized in each trade under the United States Chamber of Commerce were the temporary war-time consolidations that substituted some degree of uniformity for an every-man-for-himself policy. These ephemeral industrial pools, formed only for the period of emergency, derived their binding force and their resulting powers to compel standardization from the spirit of national sacrifice. Permanent industrial combinations to effect standardization must run the gauntlet of a different set of social conditions; they must meet the test of industrial fitness and the scrutiny of the law.

The existing law runs counter to the great combinations that would sponsor standardization. The only methods by which thoroughgoing standardization can be attained, i.e., by combination, are declared to be unlawful. The circumstance that the combination of industry was for the beneficial purpose of lowering costs by large-scale production would not blind the eyes of the courts to the fact that the keen competition over staples was thereby restrained. The very power which arises out of large combinations is itself illegal, regardless of the mode of its exercise.

The way toward standardization lies between the whirlwind of ruinous competition and the sharp rocks of the Sherman act. The breach between economic advantage and the law seems to be widening, and sooner or later a change must come. The law is the first to show signs of bending. The Webb-Pomerene bill permits combination for export business. Since that necessity means perfect harmony among all the firms of a domestic industry for the one purpose of foreign trade, it will be difficult indeed to cause these firms to fight in the other purpose of domestic business.

As the foreign demand for American goods increases there will come an increasing tendency toward large-scale production. As we develop more and more into a manufacturing nation, the industries of the country will be knit more closely together.

As some American industries thus tend to expand into monopolies of world-wide scope, foreign combinations of trades will also attain monopoly size by entering our markets and exchanging their wares for the products of our monopolies. In this merciless international competition, the small business unit will lose even the little market that it has, and the industries of the world will become concentrated into monopolies that, from manufacturing centers located at the points of greatest geographical advantage, will send their standardized

products by swift and cheap carriers to the farthest recesses of the Orient and the developing jungles of Africa and South America.

Many business men already see the change forecasted in the industrial barometer, and they are preparing for the time when the legal dyke will no longer be able to hold back the gathering flood. In the meantime the prospective dangers of unregulated monopoly should hasten the preparation of new instruments of social control. We must draw the fangs of our new-born monopolies before they use their adult powers to seize control of our political and financial machinery for their selfish ends. The practice of standardization will create a new fund of wealth, but we must control the forces that bring it forth so that the masses of consumers will share the benefits.

## IX

### THE PROBLEMS OF POPULATION

It is generally agreed to be desirable to use our powers of social control to eliminate, or greatly reduce, the grosser social evils, such as misery, poverty, vice, and crime. Perhaps the great majority of us would go farther, and use such powers in quite a positive way to make society conform more closely to our ideals. But we differ, as "reformers" have always done, as to methods. In general we belong to two schools, the one stressing control of "environment," the other control of "population." The former demands greater equality in the distribution of income, a bettering of living and working conditions, a state relief of the stress due to "economic insecurity," and like measures. The latter variously insists upon the reduction of numbers through "control of births," the restriction of immigration, and a "scientific breeding" of a "superior race" from the "eugenically fit." Some of the latter school emphasize quantitative, others qualitative, control of numbers.

The quantitative question has been much the more clearly appreciated. From the blessing "of the seed of Abraham" to England's recent imperative demand for "war brides," militaristic thought has always associated national greatness with a large population. A country in the stage of increasing returns places a high value upon sheer quantity of people, invites large families through its social conventions, and encourages its cities to boast of their numbers. It is only the presence or the anticipation of diminishing returns that causes a nation to see truth in the Malthusian specter of pressure of population upon the means of subsistence.

Half unconsciously, half deliberately, we of the United States have tried to realize our "national destiny" by exercising control over our numbers. But our problem has not until recently involved restriction of population. The movement for "smaller families and better" is one of a few decades, and it has affected only the more settled stocks. It cannot be said to have exercised as yet any general influence in restricting numbers. Our policy has been, on the contrary, one of increasing our population with mechanical rapidity, by supplementing a high, but falling, birth-rate with an extremely high rate of increase through immigration. By maintaining an "open door" we have allowed the population of the Western world slowly to adapt itself to natural resources considerably augmented by the addition of America. In the process of restoring an equilibrium throughout America and Europe as a single social entity, population has flowed to the regions where it has the highest value. The passing of the "old" and the coming of the "new" immigration shows that the leveling process in the Western World is well under way, and that Southeastern Europe is being brought within the common scheme of values. If immigration be left unrestricted, the "problem" will eventually disappear; but it will disappear because movement will no longer pay. This will come about when the lower level of material culture becomes dominant for the entity.

We have increased our population by immigration because we have needed numbers. Our vast natural resources have demanded for their development vast quantities of cheap labor. A continuous immigrant stream has supplied an increasing demand. The result has been the rapid development of a vast pecuniary system, in which the older stocks have generally been pushed up into positions of greater responsibility and higher wages. Our standards of living have been further advanced by the myriads of cheap goods which immigrant labor has enabled our mills and mines to turn out.

But, like protection, the results of immigration have not been and could not have been, limited to the purely industrial results which were anticipated.

Immigration, in connection with such complementary "forces" as protection, the rapid accumulation of capital, the swift adaptation of the machine technique to a new continent, has contributed to the general transformation of American society which has come about in the last fifty years. It has played its part in the overdevelopment of our natural resources, the rapid growth of our mining and manufacturing, the extension of our pecuniary system, the evolution of our urban culture, and the institutions, attitudes, and problems which have been incident to this. Its rôle in the production of our "prosperity" has been by no means a negligible one. Its social effects are very closely bound up with the tariff. By accelerating the rate of our development and by tying up larger and larger proportions of our resources in industries supplying capricious wants, it has intensified the rhythm of the business cycle. By blessing the country with an endless stream of "green" labor, it has seriously weakened the bargaining position of native laborers, has retarded the development of group solidarity, and has slackened the rate of improvement of factory conditions. It has caused our national life to remain "in a state of perpetual transition," and inhibited the formulation of the standards which a stable society must possess. Through the very plasticity of the immigrant it has preserved too much of the older institutional system, despite the sweeping transformation of our social life. To this end it has strengthened the hold of the older individualism; it has increased the inequalities in wealth; it has rendered the strategic position of property stronger; it has added huge increments of illiteracy to the body of citizens; it has delayed our achievement of social unity.

Not content with complicating all our social problems and adding a quota of new ones, it has presented us a perplexing and baffling immigration problem. In the past we have solved this in the formula, "Whosoever will, let him come." Our futile attempts at restriction have involved the contradiction of making use of a qualitative test, that of literacy, to solve a problem which we have conceived of only in quantitative terms. It has been followed by a quota system, twice enacted, which has aimed both at a restriction of immigration and a careful selection from among those who knock at our gates of the chosen few best qualified for admission. But if "aliens" from Southeast Europe are not to be succeeded by a "barbarian invasion" across the Mexican border, to control our growth we must formulate a more elaborate policy. In that task we must ask ourselves some very pertinent questions. What place is the immigrant to have in the future American society? Is he ultimately to become one of us, or is he to constitute a permanent proletariat in a class society? How many immigrants can we use? What are we to use them for? What policy will result in securing the right number, of the right kinds, and in the right proportions? Have we elaborated machinery for making the immigrants the kinds of people we want them to be? Can such machinery be elaborated? What influences is the newcomer exerting, or destined to exert, upon our ideals, our standards, our institutions and our programs? And what in the less immediate future is going to be the good of it all?

As we as a nation become older, our problems little by little lose their gigantic and crude character. Our solutions must accordingly become more delicate and exact. With this change in our national life we are beginning to give more attention to the qualitative side of the population problem. As yet we have aimed only at "negative" results. We have tried to prevent the marriage and breeding of the "unfit," such as the insane, the feeble-minded, and those possessed of chronic and hereditary (?) diseases. We have made some attempt to prevent the marriages of those of radically different stocks, such as whites and blacks. But we have as yet formulated no positive program aimed at a definite result. We have, with trifling exceptions, allowed men of any race to come and sojourn with us. To prevent their becoming contributors to a future American race we have depended only upon such social restraints as inhere in racial antipathy and in the difference in social and economic positions between members of different stocks. A permanent control of the quality of population involves both the immigration and the eugenics problems. We

must allow only those whom we desire to come in or to be born. But whom do we desire? This problem is not the simple one of the breeder of race horses, draught animals, or fine porkers. There is no single and simple quality that we are to breed for, such as speed, physical strength, or quantity of flesh. The answer is contingent upon the answer to the larger and more difficult question of the kind of society we want to develop.

## A. THE QUESTION OF NUMBERS

### 215. Utopia and the Serpent<sup>1</sup>

BY THOMAS HUXLEY

Suppose a shipload of English colonists to form a settlement in such a country as Tasmania was in the middle of the last century. On landing they find themselves in the midst of a state of nature, widely differing from that left behind them. They proceed to put an end to this state of things over the area they wish to occupy. They clear away the native vegetation, and introduce English vegetable and animal life, and English methods of cultivation. Considered as a whole the colony is a composite unit introduced into the old state of nature; and, thenceforward, a competitor in the struggle for existence. Under the conditions supposed there is no doubt of the result, if the work of the colonists be carried out intelligently. On the other hand, if they are slothful, stupid, or careless, there is no doubt that the old state of nature will have the best of it.

Let us now imagine that some administrative authority, as far superior to men as men are to their cattle, is set over the colony. The administrator would, so far as possible, put a stop to the influence of external competition by thoroughly extirpating the native rivals, whether man, beast, or plants. And he would select his human agents with a view to his ideal of a successful colony. Next, in order that no struggle for means of existence between human agents should weaken the efficiency of the corporate whole, he would make arrangements by which each would be provided with those means. In other words, selection by means of a struggle for existence between man and man would be excluded. As the same time, the obstacles to the development of the full capacities of the colonists would be removed by the creation of artificial conditions of existence of a more favorable character. Protection against heat and cold; drainage and irrigation, as preventives of excessive rain and drought; roads and canals, to overcome obstacles to locomotion; mechanical agencies to supplement the natural strength of men, would all be afforded. With every step in this progress in civilization, the colonists would become more and more independent of nature. To attain his ends the administrator would avail himself of the courage, industry and co-operative intel-

<sup>1</sup>Adapted from "Prolegomena" to *Evolution and Ethics* (1894), pp. v-vii.

ligence of the settlers; and it is plain that the interests of the community would be best served by increasing the proportion of persons who possess such qualities, in other words, by selection directed toward an ideal. Thus the administrator might look for the establishment of an earthly paradise, a true garden of Eden, in which all things should work together toward the well-being of the gardeners, in which men themselves should have been selected with a view to their efficiency as organs for the performance of the functions of a perfected society.

But this Eden would have its serpent, and a very subtle beast too. Man shares with the rest of the living world the mighty instinct of reproduction and its consequence, the tendency to multiply with great rapidity. The better the measures of the administrator achieved their object, the more completely the destructive agencies of the state of nature were defeated, the less would that multiplication be checked. Thus as soon as the colonists began to multiply, the administrator would have to face the tendency to the reintroduction of natural struggle into his artificial fabric, in consequence of the competition, not merely for the commodities, but for the means of existence. When the colony reached the limit of possible expansion, the surplus population must be disposed of somehow; or the fierce struggle for existence must recommence and destroy the artificially created system.

## 216. Appraisals of Population

### A) BY AN EARLY HISTORIAN<sup>2</sup>

And thy seed shall be as the dust of the earth, and thou shalt spread abroad to the west, and to the east, and to the north, and to the south; and in thee and thy seed shall all the nations of the earth be blessed.

### B) BY AN EARLY POET<sup>3</sup>

Lo, children are a heritage of Jehovah;  
And the fruit of the womb is his reward.  
As arrows in the hands of a mighty man  
So are the children of youth.  
Happy is the man that hath his quiver full of them.

### C) BY ARISTOTLE<sup>4</sup>

There is an inconsistency in equalizing the property and not regulating the number of the citizens. One would have thought that it

<sup>2</sup>From Gen. 28:14 (800 B.C.).

<sup>3</sup>From Ps. 127:3-5 (200 B.C.).

<sup>4</sup>Adapted from *The Politics*, II, 6 (357 B.C.); tr. by B. Jowett.



was even more necessary to limit population than property; and that the limit should be fixed by calculating the chances of mortality in the children, and of sterility in married persons. The neglect of this subject, which in existing states is so common, is a never-failing cause of poverty among the citizens, and poverty is the parent of revolution and crime.

D) BY SIR WILLIAM TEMPLE<sup>5</sup>

The true and natural ground of trade and riches is the number of people in proportion to the compass of the ground they occupy. This makes all things necessary to life dear, and forces men to industry and parsimony. These customs which grow first from necessity become with time to be habitual to the country. And wherever they are so, that place must grow great in traffic and riches, if not disturbed by some accident or revolution, by which the people come either to be scattered or destroyed. When things are once in motion trade begets trade as fire does fire; and people go much where people have already gone.

E) BY SIR JOSIAH CHILD<sup>6</sup>

You cry up the Dutch to be a brave people, rich and full of cities, that they swarm with people as bee-hives with bees; if a plague come they are filled up presently and such like; yet they do all this by inviting all the world to come and live among them. You complain of Spain, because their inquisition is so high, they'll let nobody come and live among them, and that's the main cause of their weakness and poverty. Will not a multitude of people strengthen us as well as the want of it weaken them? Sure it will.

F) BY DANIEL DEFOE<sup>7</sup>

Whence is all this poverty of a country? 'Tis evident 'twas want of trade and nothing else. Trade encourages manufacture, prompts invention, increases labor and pays wages. As the number of people increase, the consumption of provisions increases. As the consumption of provisions increases, more lands are cultivated. In a word as the land is employed the people increase, of course, and the prosperity

<sup>5</sup>Adapted from "An Essay upon the Advancement of Trade in Ireland," in *Works*, III (1673), 2-3.

<sup>6</sup>Adapted from "England's Great Happiness" (1677), in McCulloch's *Select Collection of Early English Tracts on Commerce*, p. 263.

<sup>7</sup>Adapted from "Extracts from a Plan of English Commerce, Being a Complete Compendium of the Trade of This Nation" (1730) in McCulloch's *Select Collection of Scarce and Valuable Tracts on Commerce*, pp. 112-13.

of a nation rises and falls just as trade is supported or decayed. 'Tis by their multitude, I say, that all wheels of trade are set on foot, the manufacture and produce of the land and the sea are finished, cured and fitted for the markets abroad; 'tis by the largeness of their gettings that they are supported.

G) BY SIR JAMES STEUART <sup>8</sup>

The generative faculty resembles a spring with a loaded weight, which always exerts itself in proportion to the diminution of resistance; when food has remained some time without augmentation or diminution the spring is overpowered; the force of it becomes less than nothing, inhabitants will diminish at least in proportion to the over charge. If on the other hand food be increased the spring will exert itself in proportion as the resistance diminishes; people will begin to be better fed; they will multiply, and in proportion as they increase in numbers, the food will become scarce again.

H) BY ARTHUR YOUNG <sup>9</sup>

In spite of the assertions of all political writers for the last twenty years, who place the prosperity of a nation in the greatest possible population, an excessive population without a great amount of work and without abundant productions is a devouring surplus for a state; for this excessive population does not get the benefits of subsistence, which, without this excess, they would partake of; the amount of work is not sufficient for the number of hands; and the price of work is lowered by the great competition of the laborers, from which follows indigence to those who cannot find work.

I) BY ADAM FERGUSON <sup>10</sup>

The number in which we should wish mankind to exist is limited only by the extent of place for their residence and of provision for their subsistence and accommodation; and it is commonly observed that the numbers of mankind in every situation do multiply up to the means of subsistence. To extend these limits is good; to narrow them is evil; but although the increase in numbers may thus be considered as object of desire, yet it does not follow that we ought to wish the species thus indefinitely multiplied.

<sup>8</sup>Adapted from *Principles of Political Economy, Being an Essay on the Science of Domestic Policy in Free States* (1767), p. 20.

<sup>9</sup>Adapted from *The Farmer's Tour Through the East of England* (1771), p. 429.

<sup>10</sup>Adapted from *Principles of Moral and Political Science* (1792), II, pp. 409-10.

J) BY A "MUCH HARMED" MAN<sup>11</sup>

I am humble man and great family, large sons and daughters with magnificent appetites. Much often have I written the great notorious gentlemen who have terribly failed in goodness; therefore, your honor will not be considerably angered with me, for because though not altogether dead for want of money, I am much harmed man and magnanimously anxious for display of my talents.

It is great sheer pity, all my big education is going horribly cast aside. Your honor, I am like one man in what your English poet calls "born blowing unseen" and your honor is the P. S. Department with its great sercelated departments—building big roads and bridges which falling down, no matter for that, makes the money—and because your honor is now completely dismissed for procuring the cash, yet still much influence is with your honor in the wide place of area of P. S. Dept.

Your kind honor will pass over the fury of my great petition. I am telling you of much troubles, experiments, and much lirmed things. I got much studies in big Dichonharry on grate talents on all things. But this manifold family which I have generated, God knows every year she does my wife make incremental successions to the ramifications of this generation. My age was nineteen when I did begin to have children and now my age is thirty-four and only one child dead, and by the Lord there will be no end to this mischief.

## B. THE MALTHUSIAN THEORY

### 217. The Theory of Population<sup>12</sup>

BY THOMAS ROBERT MALTHUS

In an inquiry concerning the improvement of society, the mode of conducting the subject which naturally presents itself is (1) to investigate the causes which have hitherto impeded the progress of mankind towards happiness; and (2) to examine the probability of the total or partial removal of these causes in the future. The principal object of this essay is to examine the effects of one great cause intimately united with the very nature of man. This is the constant tendency of all animated life to increase beyond the nourishment provided for it.

Through the animal and vegetable kingdoms Nature has scat-

<sup>11</sup>A letter from Ram Sylup, a native of India, to an ex-officer of the government, asking for a position.

<sup>12</sup>Adapted from *An Essay on the Principle of Population, or a View of the Past and Present Effects on Human Happiness* (6th ed.; 1826), I, 1-24.

tered the seeds of life abroad with the most profuse and liberal hand. If the germs of existence contained in the earth could freely develop themselves, they would fill millions of worlds in the course of a few thousand years. Necessity, that imperious, all-pervading law of nature, restrains them and man alike within prescribed bounds.

The effects of nature's check on man are complicated. Impelled to the increase of his species by an equally powerful instinct, reason interrupts his career, and asks him whether he may not bring beings into the world, for whom he cannot provide the means of support. If he hear not this suggestion, the human race will be constantly endeavoring to increase beyond the means of subsistence. But as, by that law of our nature which makes food necessary to the life of man, population can never actually increase beyond the lowest nourishment capable of supporting it, a strong check on population, namely, the difficulty of acquiring food, must be constantly in operation. This difficulty must fall somewhere, and must necessarily be severely felt in some or other of the various forms of misery by a large portion of mankind. This conclusion will sufficiently appear from a review of the different states of society in which man has existed. But the subject will be seen in a clearer light, if we endeavor to ascertain what would be the natural increase in population, if left to exert itself with perfect freedom.

Many extravagant statements have been made of the length of the period within which the population of a country can double. To be perfectly sure we are far within the truth, we will take a slow rate, and say that population, when unchecked, goes on doubling itself every twenty-five years, or increases in a geometrical ratio. The rate according to which the production of the earth may be supposed to increase, it will not be so easy to determine. However, we may be perfectly certain that the ratio of their increase in a limited territory must be of a totally different nature from the ratio of the increase in population. A thousand millions are just as easily doubled every twenty-five years by the power of population as a thousand. But the food will by no means be obtained with the same facility. Man is confined in room. When acre has been added to acre till all the fertile land is occupied, the yearly increase in food must depend upon the melioration of the land already in possession. This is a fund, which, from the nature of all soils, instead of increasing must be gradually diminishing. But population, could it be supplied with food, would go on with unexhausted vigor; and the increase in one period would furnish a power of increase in the next, and this without any limit. If it be allowed that by the best possible policy the average produce could be doubled in the first twenty-five years, it will be allowing a

greater increase than could with reason be expected. In the next twenty-five years it is impossible to suppose that the produce could be quadrupled. It would be contrary to our knowledge of the properties of land.

Let us suppose that the yearly additions which might be made to the former average produce, instead of decreasing as they certainly would do, were to remain the same; and that the product of the land might be increased every twenty-five years, by a quantity equal to what it at present produces. The most enthusiastic speculator can not suppose a greater increase than this. Even then the land could not be made to increase faster than in an arithmetical ratio. Taking the whole earth, the human species would increase as the numbers 1, 2, 4, 8, 16, 32, 64, 128, 256, and subsistence as 1, 2, 3, 4, 5, 6, 7, 8, 9. In two centuries the population would be to the means of subsistence as 256 to 9; in three centuries as 4096 to 13, and in two thousand years the difference would be almost incalculable.

In this supposition no limits whatever are placed to the produce of the earth. It may increase forever and be greater than any assignable quantity; yet still the power of population, being in every period so much greater, the increase of the human species can only be kept down to the level of the means of subsistence by the constant operation of the strong law of necessity, acting as a check upon the greater power.

But this ultimate check to population, the want of food, is never the immediate check except in cases of famine. The latter consists in all those customs, and all those diseases, which seem to be generated by a scarcity of the means of subsistence; and all those causes which tend permanently to weaken the human frame. The checks may be classed under two general heads—the preventative and the positive.

The preventative check, peculiar to man, arises from his reasoning faculties, which enables him to calculate distant consequences. He sees the distress which frequently presses upon those who have large families; he cannot contemplate his present possessions or earnings, and calculate the amount of each share, when they must be divided, perhaps, among seven or eight, without feeling a doubt whether he may be able to support the offspring which probably will be brought into the world. Other considerations occur. Will he lower his rank in life, and be obliged to give up in great measure his former habits? Does any mode of employment present itself by which he may reasonably hope to maintain a family? Will he not subject himself to greater difficulties and more severe labor than in his present state? Will he be able to give his children adequate educa-

tional advantages? Can he face the possibility of exposing his children to poverty or charity, by his inability to provide for them? These considerations prevent a large number of people from pursuing the dictates of nature.

The positive checks to population are extremely various, and include every cause, whether arising from vice or misery, which in any degree contributes to shorten the natural duration of human life. Under this head may be enumerated all unwholesome occupations, severe labor, exposure to the seasons, extreme poverty, bad nursing of children, great towns, excesses of all kinds, the whole train of common diseases, wars, plagues, and famines.

The theory of population is resolvable into three propositions:

- (1) Population is necessarily limited by the means of subsistence.
- (2) Population invariably increases where the means of subsistence increase, unless prevented by some very powerful and obvious checks.
- (3) These checks which keep population on a level with the means of subsistence are all resolvable into moral restraint, vice, and misery.

#### 218. Malthusianism a Support of Capitalism<sup>13</sup>

BY PIERCY RAVENSTONE

We have new doctrines preached to us. Men, it is now discovered, grow more readily than plants. Human beings overrun the world with the rapidity of weeds. Hence the hopeless misery. The earth groans under the weight of numbers. The rich, it is now discovered, give bread to the poor. Labor owes its support to idleness. Those who produce everything would starve but for the assistance of those who produce nothing. The numbers of the poor are to be checked by all possible means: every impediment is to be placed in the way of their marriages, lest they should multiply too fast for the capital of the country. The rich, on the contrary, are to be encouraged, everything is to be done for their benefit. For though they produce nothing themselves, their capital is the cause of everything produced; it gives fertility to our fields and fecundity to our flocks.

These doctrines are new. It was long the established creed of every statesman, that in the extent of its population consisted the strength, the power, and the opulence of every nation; that it was therefore the duty of every sovereign to increase, by all practicable means, the number of the people committed to his charge. On whatever other points statesmen and legislators might differ, on this they

<sup>13</sup>Adapted from *A Few Doubts as to the Correctness of Some Opinions Generally Entertained on the Subjects of Population and Political Economy* (1821), pp. 5-24.

were all agreed. From Lycurgus to Montesquieu the doctrine underwent no change. Marriage was everywhere held up as honorable; children were considered as entitling their fathers to peculiar privilege and the mark of scorn was imprinted on the selfish being who remained single. Poverty gave no exception; it rather increased the obligation. His country gratefully received in children the contribution of him who had nothing else to give. The wealth of a nation consisted in the number and strength of its peasantry. Men did not dream that riches could be separated from numbers. By these newer doctrines pestilence and famine are ministers of God, executing his eternal decrees, and rescuing us from the necessity of overwhelming wretchedness. The doctrine has robbed Divinity of all the charities of his nature, leaving to him little else than the functions of an enemy of mankind.

The great and the rich could not be much offended at discovering that whilst their rights were augmented, they were entirely absolved from the performance of those actions which the less enlightened judgment of other times had classed among the most important and essential of their duties. To be merciful to our own faults, to believe our idle expenses meritorious, to set up selfishness as the idol of our idolatry, and to drive away charity, are duties not very repugnant to our nature. They demand no sacrifice in their performance. The temple of virtue will be crowned with votaries, if it be made to lead to the shrine of self-interest.

Those severer morals which taught that the poor were equally partakers of the divine nature with the rich; that they were equally fashioned in the image and likeness of God; that their industry being the cause of all that was produced, and the rich being in reality only pensioners on their bounty, the latter were only trustees for the good of society; that their wealth was given not for their own enjoyment, but for its better distribution through the different channels of society, were not likely long to maintain their hold on the minds of the wealthy against those sedative doctrines which flattered the passions, converted faults into good qualities, and made even conscience pander to vices.

It is an old and dreary system which represents our fellow-creatures as so many rivals and enemies, which makes us believe that their happiness is incompatible with our own, which builds our wealth on their poverty, and teaches that their numbers cannot consist with our comforts and enjoyments; which would persuade us to look on the world as a besieged town, where the death of our neighbors is hailed with secret satisfaction since it augments the quantity of provisions likely to fall to our share. To consider misery and vice

as mere arrangements of the Divinity to prevent the inconvenience of a too great population of the world, is to adopt predestination in its worst form. In committing crimes we should only be executing the will of God; in alleviating the distresses of others, in feeding the hungry and clothing the naked, we should be running counter to the decrees of Providence.

But before we can adopt these conclusions, it behooves us to examine on what foundation the system is built. We must remember that it is the common interests of all members which holds society together. Misery is not of God's creation; vice is not the minister of His will. I shall show that the increase in numbers in the human species is wholly uninfluenced by human institutions. It is by no means so varied in its operation as Mr. Malthus has supposed; it affords no ground for alarm; it calls for no restrictive measures, since the increase in subsistence is entirely dependent on the increase in numbers. Every man brings into the world the means of producing his own sustenance. Wherever the numbers of the people increase more rapidly than the means of subsistence, the fault is not with Providence, but in the regulations of society. Capital is no addition to the wealth of a nation; it conduces nothing to the improvement of the industry; it is merely a new distribution of the property of society, beneficial to some, wholly because it is injurious to others.

#### 219. Malthus versus the Malthusians<sup>1</sup>

BY LEONARD T. HOBHOUSE

The appearance of the biological theory of progress, of which we have been hearing much of late, was announced by the terrible douche of cold water thrown by Malthus on the speculative optimism of the eighteenth century. The generation preceding the French Revolution was a time of buoyant and sanguine outlook. There floated before men the idea of an age of reason when men should throw off the incubus of the past and resume a life in accordance with nature in a social order founded on a rational consideration of natural rights. Nature both in the politics and the economics of the time assumes a half personal and wholly benevolent character while human restrictions, human conventions, play the part of the villain in the piece. At this point Malthus intervened by calling attention to a "natural" law of great significance. This was the law that human beings multiplied in a geometrical ratio; that it was

<sup>1</sup>Adapted from *Social Evolution and Political Theory*, pp. 13-16. Copyright by the Columbia University Press, 1911.



only by the checks of famine, pestilence, and war that they were prevented from overspreading the earth, and that, to cut the matter short, whatever the available means of subsistence, mankind would always, in the absence of prudential checks, multiply up to the limit at which those means became inadequate. True, the means of subsistence might be extended. New countries might be opened up. New sources of food supply might be discovered. Every such extension, the Malthusian argued, would only redouble the rate of multiplication. Checks would cease, men and women would marry earlier; very soon population would again be pressing on the means of subsistence. The advance in civilization told in the same direction. Population was increasing, must increase. It could be held in check only by the one great barrier of the subsistence limit against which the fringe of advancing population must forever beat in misery. There could be no solution of the social question; for in the nature of things there must be a line where the surf of the advancing tide breaks upon the shore, and that shore was death from insufficiency of nourishment. You observe that in summarizing the argument I speak partly of Malthus, partly of the Malthusians. Malthus himself, particularly in his second edition, laid stress on the prudential checks. He cannot fairly be accused of fostering the pessimistic views often fastened upon him. But for many a long year after he wrote, the efficacy of the prudential checks appeared to be very slight. It was his first edition that was generally absorbed and that profoundly influenced social thought for nearly a century. It was not till the seventies that there came into operation that general fall in the birth-rate, which has justified Malthus against the Malthusians, has put the calculations of the future growth of population on a radically different basis, and has brought about among other things a complete reconstruction of the biological argument against progress. I venture to think we may draw a lesson from the fate of Malthusianism. Mathematical arguments drawn from the assumption that human beings proceed with the statistical regularity of a flock of sheep are exceedingly difficult to refute in detail, and yet they rest on an insecure foundation. Man is not merely an animal. He is a rational being. The Malthusian theory was one cause of the defeat of its own prophecies. It was the belief that population was growing too fast that operated indirectly to check it. Those who fear that population is now growing too slowly, may take some comfort from the reflection. We are not hastily to assume inevitable tendencies in human society, because the moment society is aware of its tendencies a new fact is introduced. Man, unlike other animals, is moved by the knowl-

edge of ends, and can and does correct the tendencies whose results he sees to be disastrous. The alarmist talk of race suicide may serve its purpose if only by admonishing us of the fate of a theory based on what appears to be a most convincing biological calculation.

## 220. The Great Adventure<sup>15</sup>

BY WILLIAM S. ROSSITER

I shall ask you this evening to follow a brief account of the phenomenal increase of population of European blood which occurred in one century, inquiring especially whether any resemblances exist between population changes in Europe and those in the United States; if so, to what extent, and to what these increases appear to lead.

It is not probable that the immense increase during the century which elapsed from 1810-15 to 1910-20 in the number of human beings of European blood residing in Europe and elsewhere had a counterpart on any considerable scale at any other period of human history. This sudden and phenomenal growth is a fact of profound importance. It is the result of far-reaching influences, all of which are not yet fully spent or understood. Already it is a population adventure, and it leads in the future to further adventure, limitless in its possibilities for the human race.

This century of great human increase was bounded at its beginning and its ending by the greatest wars known. In 1815, just as the Napoleonic wars ended, the population of Europe, including the number or equivalent of persons of European blood in the Americas and elsewhere throughout the world, probably did not much exceed 210,000,000 persons. A century later, as Europe was entering upon a great war exceeding in misery and costliness all earlier conflicts, the population of Europe, and again including persons of European origin in the Americas and elsewhere, approximated 645,000,000.

It is necessary at the outset to emphasize the radical difference in the rates of increase of population before the nineteenth century as compared with those of our own time. Confining ourselves to Europe, it is hard to realize in this swiftly moving age how small a change in the number of inhabitants probably occurred in a hundred-year period. These early centuries in Europe, let us say from the year 1000 to 1700, were hand-power centuries. Human beings were comparatively few in number; they tilled the soil, utilized beasts of

<sup>15</sup>Adapted from "The Adventure of Population Growth," *Journal of the American Statistical Association*, XVIII (1923), 561-69.

burden and, to a limited degree, windpower, and engaged in public and private warfare as their principal occupation. Change from century to century was thus very gradual.

With slender basis of fact, I venture to suggest for your approval, or at least for your consideration, the likelihood that (1) the population of Europe in the year 1000 must have been between 18,000,000 and 30,000,000; (2) population increase was extremely slow, but tended century by century to gather headway; and (3) an increase of possibly 33 per cent per one hundred years was reached by the seventeenth century, and of 50 per cent by the eighteenth century.

In 1815 the condition of the nations of Europe seems to have resembled rather strikingly that of their descendants a century later. Yet, in 1815, with many new boundaries, huge indebtedness, comparatively limited population, and seemingly a discouraging outlook for economic recovery, Europe nevertheless was actually on the verge of an immense industrial awakening, with corresponding stimulus to human increase. The influence of this awakening was everywhere felt. It was most marked, however, in those countries which took the lead as distinctly industrial states. Of the approximate 100,000,000 increase in the population of Europe up to 1860, 41,000,000 were contributed by Great Britain and the two Germanic empires, 29,000,000 by Russia, and the remaining 28,500,000 by some twelve other nations, including the present Balkan states.

Population all over Europe tended to increase even more liberally as this distinctly industrial and commercial century advanced. The passage of the second half emphasized the growth, first, of those states which had taken the lead in manufacturing and commerce, such as Great Britain, Germany, and Austria; and second, of a number of nations previously having rather sluggish population increase, such as Italy, Holland, Spain, and several of the smaller countries. In absolute increase nearly all the countries of Europe showed stimulated increase from 1860 to 1910-15 as compared with corresponding figures for 1810-15 to 1860.

But if the population of Europe, exclusive of the large cities, increased during the century here considered a little more than 125 per cent, and if the large cities by themselves increased nearly 600 per cent, clearly showing the control and stimulation of industrial and commercial activities, what of the United States? Are we in this country revealing population changes at all resembling those of Europe, or are we following independent lines of growth?

Turning backward a century from our last census, in 1820, the population of the United States was slightly over nine and a half millions (9,640,000). During the next fifty years (to 1870) there

was an increase of approximately 300 per cent. During the next half-century, from 1870 to 1920, the population of the United States increased approximately 165 per cent. The population of Europe, on the other hand, increased 51 per cent from 1810-15 to 1860-65. Half a century later, at the end of the period we are considering, the increase was 55 per cent. Here is a surprising dissimilarity in the two half-century increases in the United States, caused by slowing down of increase, and a surprising resemblance between the two half-century increases in Europe.

If the two great sections of European blood—the inhabitants of Europe and America—are combined, the percentage of increase proves astonishingly uniform. The aggregate population of Europe and the United States increased during the first half of the last century, 1810-20 to 1860-70, 63 per cent, and during the second half, 68 per cent.

Population changes in Europe and America are, after all, much alike. The percentages of increase shown by each are tending to become substantially the same, as merely relating to parts of one great race—the contribution, on the one hand, of separated sections or national entities; on the other, of a great conglomerate drawn from these separate nations and fused in America. If this be accepted, what of the future?

If the increase during the coming century in the population of Europe, North America, and the estimated number of persons of European blood elsewhere were to be placed at the one-third per century rate already suggested as likely to have prevailed for the period prior to 1800, the number of persons of European blood in 2020 would be 860,000,000; but if the rate of increase shown for the past century by Europe and the United States combined were to be maintained to 2020, the number of persons of European blood living in that year would reach the amazing total of 1,980,000,000.

Inspection of these possible totals creates the impression that shrinkage of increase back again to an absolute of not over one-third for a century is more likely to occur than continuation of the exceptional rate of increase shown from 1810-15 to 1910-15, which would lead to a total number of persons of European antecedents greater than all the present inhabitants of the globe combined. The former would represent a population capable of living with no very radical modification of our present conditions of existence; the latter would represent an adventure in population growth almost beyond comprehension, and also would mean changes in all the activities of life probably much more radical than those which have occurred since 1815, resulting in an almost inevitable lowering in the scale of living.

Consideration of the general figure of growth in number of persons of European blood seems, therefore, to tend toward this conclusion: Increase during a century extremely prolific in humanity appears to be slowing down in Europe and America and to lean again toward earlier rates of growth. Any upward variation shown is likely to come from continents and islands still awaiting development.

Here, clearly, we reach the confines of the statistician's domain. The adventure of future population increase belongs to the food specialist, the sociologist, biologist, and economist.

### C. THE COMING OF THE IMMIGRANT

#### 221. The Immigrant Invasion<sup>16</sup>

BY FRANK JULIAN WARNE

At the time of the appearance of the comet in 1910 there was in progress the most remarkable and in many ways the most wonderful invasion of one country by peoples of foreign countries that the world had ever seen. In the very month of May, when the comet's appearance in the heavens was being heralded in the newspapers, as many as one hundred and fifty thousand representatives of different races and countries of the world were entering the immigrant ports of the United States. They were equal to one hundred and fifty full regiments of one thousand each; they were double the entire fighting strength of the United States Army. More than one million people from all the countries on the globe were that year passing in a seemingly never-ending stream into the United States.

They came from the British and the Spanish Americas, from Europe and from Africa, from Asia and from India, from the islands of the Pacific and the islands of the Atlantic. From the United Kingdom and the Russian Empire, from the Scandinavian countries and the Netherlands, from the German Empire and the Dual Kingdom of Austria-Hungary, from Turkey in Europe and Turkey in Asia, from Italy and China and Japan, they came. There was not a single geographical or politically organized area of importance from which they did not come. England, Ireland, Scotland, Wales, Norway, Sweden, Denmark, Holland, Belgium, Switzerland, France, Spain, Portugal, Roumania, Greece, Armenia, Persia, Syria, Sicily and Sardinia, the Cape Verde and Azores Islands, the Canary and Balearic Islands, British Honduras, Tasmania, and New Zealand, the Philippines, Hawaii, the East and the West Indies.

<sup>16</sup>Adapted from *The Immigrant Invasions*, pp. 1-21. Copyright by Dodd, Mead & Co., 1913.

Cuba, Canada, Mexico, and South and Central American countries—each and all and more were represented.

The sources of this stream of immigration are four great stocks of the human race—the Aryan, the Semitic, the Sinitic, and the Sibiric. From the homes of these, as they have scattered themselves among the Teutonic, Celtic, Slavonic, Lettic, Italic, Hellenic, Illyric, Indo-Iranic, Chaldean, Chinese, Japanese, Finnic, and Tartaric groups, this stream is pouring. The peoples composing it are Scandinavians, Dutch, Flemish, Germans, English; Irish, Welsh, Scotch; Bohemians, Dalmatians, Moravians, Croatsians, Poles, Slovenians, Bulgarians, Russians, Servians, Ruthenians, Montenegrins, Bosnians, Herzegovinians, Slovaks; Letts and Lithuanians; French, Italians, Portuguese, Roumanians, and Spaniards; Greeks; Albanians; Armenians, Persians, and Gypsies; Hebrews and Syrians; Chinese; Japanese and Koreans; Finns and Magyars; and Turks. Besides, we have coming to us Berbers and Arabs from northern Africa, Bretons from western France, Esthonians from western Russia, Eskimos from western Alaska, Spanish Americans from South America. Not even all these exhaust the multitudinous sources contributing to our foreign-born population.

Unlike the invasions of other centuries and of other countries, the present-day immigration to the United States is not by organized armies coming to conquer by the sword. It is made up of detached individuals, or at most, of family or racial groups, afoot, the sword not only sheathed but also entirely discarded by those who have no idea of battling with arms for that which they come to seek. They do not come as armed horsemen, with their herds of cattle and skin-canopied wagons. Nor do they present themselves at our doors in "great red ships," with the ensign of the rover hanging from the topmast, and clad in chain-mail shirts and with helmets.

More than twenty-eight million have entered the United States from all parts of the world during the ninety years since 1820! In the course of the nineteenth century, and the first decade of the twentieth century, there came more than five million from Germany, four million from Ireland, more than three million from each of Austria-Hungary, and Italy, three million from England, Scotland, and Wales; nearly two and one-half million from Russia; nearly two million from Norway, Denmark, and Sweden; and about five hundred thousand from France.

More than twenty-five million immigrants came within the sixty years since 1850; and more than nineteen million came within the last thirty years. The ten years ending with 1910 gave us a total immigration exceeding 8,795,000, nearly five million of those arriv-

ing within the past five years. In the single year 1910 the number of arrivals exceeded one million by 41,000; in the twelve months three years before they had reached 1,285,000, this being the largest single yearly inflow of foreign born in the history of the country.

Taking the average for the past ten years, we find that there came annually more than eight hundred and seventy-nine thousand immigrants; for every month more than seventy-three thousand; for every day, Sundays and holidays included, two thousand four hundred and forty, and for every time the clock struck the hour, day and night, one hundred persons born in some foreign country landed on the shores of the United States.

Truly a wonderful invasion! A stupendous army! An army that has been marching continually all these years—an army whose ranks, although changing racially, have not been depleted but have steadily and at times alarmingly increased in numbers as the decades have gone by. Here is a phenomenon before which we must stand in awe and amazement when contemplating its consequences to the human race!

Think you that any such numbers invaded the Roman world when the Huns poured in from the East? Was Attila's army one-half, even one-tenth, as large when it overran Gaul and Italy? Did the Saxons in the sixth century invade England in any such numbers? Or, did William the Conqueror lead any such army in the Norman invasion of England in the eleventh century? And yet, upon the peoples of those countries the mark of the invader is seen to this day. Think you that America alone will escape the consequences?

Let us look at the volume of this invasion from another angle. There were in the United States in 1910 more than 13,500,000 persons who had been born in some foreign country. That is, one out of every seven of our population came here, not through having been born here, but through immigration. The largest contribution was from Germany, the next largest from Russia; then came Ireland and Italy in a close race for third place, the number of the former exceeding those from Italy by less than ten thousand. Austria, including Bohemia and a part of what formerly was Poland, held fifth place; Canada was in sixth and England in seventh place, Sweden in eighth, Hungary in ninth, and Norway in tenth.

These ten countries contributed more than 11,600,000 of the 13,500,000 or all but 1,900,000 of our foreign-born. Their proportion of the total was about 86 per cent. The other countries or geographical and political divisions represented in the foreign-born population of the United States in 1910 were Scotland, Wales, Den-

mark, Holland, Belgium, Luxemburg, Switzerland, Portugal, Spain, France, Finland, Roumania, Bulgaria, Servia, Montenegro, Turkey, Greece, Newfoundland, Cuba, West Indies, Mexico, Central America, South America, Japan, China, India, Asia, Africa, Australia, Atlantic Islands, Pacific Islands, and other countries not specified.

Religiously they are believers in Roman and Greek Catholicism, Protestantism in its manifold forms and variations, Mohammedanism, Armenianism, Buddhism, Confucianism, Judaism, Shamanism, Islamism, Shintoism, and hundreds of diversified sects, some with such strange names as Chiah, Sunni, Parsee, Nestorian, Maronite, Druse, Osmanlis, Laotse, and so on.

Linguistically they are German, Dutch, Scandinavian, including Danish, Norwegian, and Swedish, Flemish, English, Gaelic, Cymric, Slavic, including Russian, Serbo-Croatian, Polish, and Bohemian; French, Italian, Spanish, Roumanian, Portuguese, Rhetoroman, Greek, Albanian, Lithuanian, Lettic, Armenian, Persian, Yiddish, Semitic, Turkish, Finnish, Magyar, Chinese, Japanese, Korean, Mexican, Spanish American, and other groups distinguished by the language they speak. Among these are such strange and unfamiliar dialects as Friesian, Thuringian, Franconian, Swabian, Alsatian, Wallon, Gascon, Languedocian, Rhodanian, Catalan, Gallego, Friulan, Gegish, Toskish, Pamir, Caspian, Syriac, Aramaic, Shkipetar, and so on.

Some conception of the significance of the numerical strength of the foreign-born in the United States is gained by means of a few simple comparisons. They number over three and one-half millions more than all the negro population of the entire country. They equal more than twice the total population, and nearly three times that of the native, of the six New England States; they would populate the seven states of Minnesota, Iowa, Missouri, the two Dakotas, Nebraska, and Kansas, with their present density, and still have an extra 1,880,000; they supply a population 1,300,000 in excess of the total found today in the South Atlantic division, including, besides the District of Columbia, also Delaware, Maryland, the two Virginias, the two Carolinas, Georgia, and Florida.

Considering the native population only, which includes also the children born here of foreign-born parents, our total foreign-born equals all the natives in the twenty-two states of Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, Connecticut, Delaware, Florida, the two Dakotas, Kansas, Montana, Idaho, Wyoming, Colorado, New Mexico, Arizona, Utah, Nevada, California, Oregon, and Washington.



222. Our Industrial Debt to Immigrants<sup>17</sup>

BY PETER ROBERTS

The new immigration in one respect differs very markedly from the old; the percentage of farmers and farm laborers in this new stream is sixfold what it was in the old. In the last decade, the countries of southeastern Europe have sent us two and a half million men, who, in the old country, were tillers of the soil; but it is safe to say that the number following that occupation in the new world is insignificant. They are employed in industrial plants, in which their labor brings quick returns, and if dissatisfied with wages and conditions they can, in a day, pull up stakes and go elsewhere. The new immigration consequently contains more unskilled workers than the old.

America, two generations ago, was an agricultural nation; to-day it stands in the van of the industrial nations of the earth. This marvelous development, the astonishment of the civilized world, could never have taken place, if Europe and Asia had not supplied the labor force. From 1880 to 1905 the total capital in manufacturing plants increased nearly fivefold, the value of the products increased more than two and a half times, and the labor force about doubled. America could never have finished its transcontinental railroads, developed its coal and ore deposits, operated its furnaces and factories, had it not drawn upon Europe for its labor force; for it was impossible to secure "white men" to do this work.

American industry had a place for the stolid, strong, submissive and patient Slav and Finn; it needed the mercurial Italian and Roumanian; there was much coarse, rough, and heavy work to do in mining and construction camps; in tunnel and railroad building; around smelters and furnaces, etc., and nowhere in the world could employers get laborers so well adapted to their need, as in the countries of southeastern Europe.

Louis N. Hammerling, president of the American Association of Foreign Newspapers, appearing before the Federal Commission on Immigration, said: (1) Sixty-five per cent of the farmers owning farms and working as farm laborers are people who came from Europe during the last thirty years. (2) Of the 890,000 miners, mining the coal to operate the great industries, 630,000 are our people. (3) Of the 580,000 steel and iron workers employed in the different plants throughout the United States, 69 per cent, according to the latest statistics of the steel and iron indus-

<sup>17</sup>Adapted from *The New Immigration*, pp. 49-62. Copyright by the Macmillan Co., 1912.

tries, are our people. (4) Ninety per cent of the labor employed for the last thirty years in building the railways has been furnished by our immigrant people, who are now keeping the same in repair.

The census of 1900 showed that 75 per cent of the tailors of the country were foreign born. The investigation of the Immigration Commission showed 72.2 per cent of the workers in the clothing trades foreign-born, and another 22.4 per cent was made up of the children of foreign-born parents; thus 94.6 per cent of the men and women who manufacture ready-made garments are of foreign parentage.

Wherever unskilled work is needed, the foreigner is the one who does it. He is the toiler, the drudge, the "choreman." In the slaughtering and meat-packing industry, the foreign-born comprise about 60 per cent of the labor force, but if you want to locate the sons of the new immigration in a plant of this character, you must descend to the pits where the hides are cured, generally located in dark and damp basements. Go to the fertilizing plant where the refuse of the slaughter house is assembled, and amid the malodorous smells which combine into one rank stench tabooed by all English-speaking men, you find the foreigner. Go to the soap department, where the fats are reduced and the alkalis are mixed—a place you smell from afar and wish to escape from as soon as possible, and there the foreigner is found. These disagreeable occupations "white people" have forsaken, and the sons of the new immigration do the work uncomplainingly for \$1.50 a day.

Wherever digging, excavating, constructing, machine molding, and mining go on, there we find the foreign-born. The patient, willing, and constant labor of the Italians made possible the subways of the great metropolis of the nation; the Bronx Sewer was dug by Italians, Austrians, and Russians. These are the workers who enlarge the Barge Canal and build the Aqueduct to carry an adequate supply of water to the millions of New York City. In lumber camps, in mine patches, in railroad construction work, the foreigner is found. He displaces colored labor in construction camps in the South; and, in the West, he does the unskilled labor unless a legal barrier has been erected to keep him out. The labor force in the woods of Michigan and Minnesota, of Maine and Vermont, is preponderatingly made up of foreigners.

The aliens are the backbone of the mining industry. Calumet, in the northern peninsula of Michigan, is a foreign city of 45,000 souls. There are sixteen different nationalities represented on the public school teaching force, and the pupils in the high school represent twenty different races. It is difficult to find an Amer-

ican in the place. If you want to find the native-born, you must go to Houghton, the capital of the county, where the doctors and lawyers, engineers and professors, retired capitalists and the leisure class live, and it is the same in the mining camps all through this upper peninsula of Michigan. The men who dig the ore, load it and clean it, who burn the powder and remove the rock, who crawl through dog holes and climb numberless ladders, are foreigners. The only crowd met with in the territory not of foreign parentage are the young college graduates, incipient civil engineers, who put into practice the theories they were taught at college. The same is true, generally speaking, of the coal-mining industry.

The United States owes much to the man of the new immigration. No true American will withhold the meed of praise due this man. The consensus of opinion of superintendents and foremen who have used these men is that they have played their part with a devotion, amiability, and steadiness not excelled by men of the old immigration.

### 223. The Manna of Cheap Labor<sup>18</sup>

BY EDWARD ALSWORTH ROSS

It is not as cargo that the immigrant yields his biggest dividends. But for him we could not have laid low the many forests, dug up so much mineral, set going so many factories, or built up such an export trade as we have. In most of our basic industries the new immigrants constitute at least half the labor force. Although millions have come in there is no sign of supersaturation, no progressive growth of lack of employment. Somehow new mines have been opened and new mills started fast enough to swallow them up. Virtually all of them are at work and, what is more, at work in an efficient system, under intelligent direction. Janko produces more than he did at home, consumes more, and, above all, makes more profit for his employer than the American he displaces. Thanks to him we have bigger outputs, tonnages, trade balances, fortunes, tips, and alimonies; also bigger slums, red-light districts, breweries, hospitals, and death rates.

To the employer of unskilled labor this flow of aliens, many of them used to dirt floors, a vegetable diet, and child labor, and ignorant of underclothing, newspapers, and trade unions, is like a rain of manna. For, as regards foreign competition, his own position is a Gibraltar. Our tariff has been designed to protect him. Thus as long as he stays in his home market, the American mill owner is

<sup>18</sup>Adapted from "The Old World in the New," *Century Magazine*, LXXXVII, 29. Copyright, 1913.

shielded from foreign competition, while the common labor he requires is cheapened for him by the endless inflow of the neediest, meekest laborers to be found within the white race. If in time they become ambitious and demanding, there are plenty of "greenies" he can use to teach them a lesson. The "Hunkies" pay their "bit" to the foreman for the job, are driven through the twelve-hour day, and in time are scrapped with as little concern as one throws away a thread-worn bolt. A plate mill which had experienced no technical improvement in ten years doubled its production per man by driving the workers. No wonder then that in the forty years the American capitalist has had Aladdin's lamp to rub, his profits from mill and steel works, from packing-house and glass factory, have created a sensational "prosperity" of which a constantly diminishing part leaks down to the wage-earners. Nevertheless, the system which allows the manufacturer to buy at a semi-European wage much of the labor that he converts into goods to sell at an American price has been maintained as "the protection of American labor!"

#### D. THE ARGUMENT ABOUT NUMBERS

##### 224. The Economics of Immigration<sup>19</sup>

BY FRANK A. FETTER

The current objections to immigration are mainly based on the alleged evil effects to the political, social, and moral standards of the community. It is often asserted that present immigration is inferior in racial quality to that of the past. Whatever be the truth and error mingled in these views, we are not now discussing them. Our view is wholly impersonal and without race prejudice. If the present immigration were all of the Anglo-Saxon race, were able to speak, read, and write English, and had the same political sentiments and capacities as the earlier population, the validity of our present conclusions would be unaffected.

When our policy of unrestricted immigration is thus opposed to the interests of the mass of the people, its continuation in a democracy where universal manhood suffrage prevails is possible only because of a remarkable complexity of ideas, sentiments, and interests, neutralizing each other and paralyzing action. The American sentiment in favor of the open door to the oppressed of all lands is a part of our national heritage. The wish to share with others the blessings of freedom and of economic plenty is the product of many

<sup>19</sup>Adapted from "Population or Prosperity," *American Economic Review*, III (No. 1, Supplement), 13-16. Copyright, 1912.

generations of American experience. The policy had mainly an economic basis; land was here a free good on the margin of a vast frontier. Most citizens benefited by a growing population. But the open door policy is vain to relieve the condition of the masses of other lands. Emigration from overcrowded countries, with the rarest exceptions, leaves no permanent gaps. Natural increase quickly fills the ranks of an impoverished peasantry. Lands whose people are in economic misery must improve their own industrial organization, elevate their standards of living, and limit their numbers. If they go on breeding multitudes which find an unhindered outlet in continuous migration to more fortunate lands, they can at last but drag others down to their own unhappy economic level.

The pride of immigrants and of their children, sometimes to the second and third generations, is another strong force opposing restriction. Immigrants, having become citizens, are proud of the race of their origin, and resent restriction as a reflection upon themselves and their people.

A strong commercial motive operates in the most influential class of employers in favor of the continuance of immigration. From the beginning of our history, proprietors and employers have looked with friendly eyes upon the supplies of comparatively cheap labor coming from abroad. Large numbers of immigrants or of their children have been able soon, in the conditions of the times, to become proprietors and employers. Thus was hastened the peopling of the wilderness. The interest of these classes harmonized to a certain point with the public interest; but likewise it was in some respects in conflict with the abiding welfare of the whole nation. It encouraged much defective immigration from Europe.

The immigration from Europe has furnished an ever-changing group of workers moderating the rate of wages which employers otherwise would have had to pay. The continual influx of cheap labor has aided in imparting values to all industrial opportunities. A large part of these gains have been in the trade, manufactures, and real estate of cities, as these have taken and retained an ever growing share of the immigrants. Successive waves of immigration, composed of different races, have been ready to fill the ranks of the unskilled workers at meager wages. This continuous inflow has in many industries come to be looked upon as an indispensable part of the labor supply. Conditions of trade, methods of manufacturing, prices, profits, and the capital value of the enterprises have become adjusted to the fact. Hence results one of those illusions cherished by the practical world when it identifies its own profits with the public welfare. Without immigration, it is said, the supply of labor

would not be equal to the demand. It would not at the present wages. Supply and demand have reference to a certain price. At a higher wage the amount of labor offered and the amount demanded will come to an equality. This would temporarily curtail profits, and other prices would, after readjustment, be in a different ratio to wages. Such a prospect is most displeasing to the commercial world, quick to see disaster in a disturbance of profits, slow to see popular prosperity in rising wages.

The labor supply coming from countries of denser population and with low standards of living creates, in some occupations, an abnormally low level of wages and prices. Children cannot be born in American homes and raised on the American standard of living cheaply enough to maintain at such low wages a continuous supply of laborers. Many industries and branches of industry in America are thus parasitical. A condition essentially pathological has come to be looked upon as normal. It is the commercial ideal which imposes itself upon the minds of men in other circles.

What tremendous forces are combined in favor of a policy of unrestricted immigration: sentiment and business, generosity, selfishness, laborers, employers. All men are prone to view immigration in its details, not in its entirety. They see this or that individual or class advantage, not the larger national welfare. The interests of capitalists and of the newly arriving immigrants are abundantly considered; the interests of the mass of the people now here are overlooked.

## 225. The Industrial Menace<sup>20</sup>

BY EDWARD ALSWORTH ROSS

The facts assembled by the Immigration Commission shatter the rosy theory that foreign labor is drawn into an industry only when native labor is not to be had. The Slavs and Magyars were introduced into Pennsylvania forty-odd years ago by mine operators looking for more tractable miners. Agents were sent abroad to gather up labor, and frequently foreigners were brought in when a strike was on. The first instance seems to have occurred at Drifton in 1870 and resulted in the importation of two shiploads of Hungarians. In 1904, during a strike in the coal-fields, near Birmingham, Alabama, many southern Europeans were brought in. In 1908 "the large companies imported a number of immigrants," so that the strike was broken and unionism destroyed in that region. Dur-

<sup>20</sup>Adapted from "The Old World in the New," *Century Magazine*, LXXXVII, pp. 29-33. Copyright, 1913.

ing the 1907 strike in the iron mines of northern Minnesota, "one of the larger companies imported large numbers of Montenegrins and other Southeastern races as strike-breakers."

The hegira of the English-speaking soft-coal miners shows what must happen when low-standard men undercut high-standard men. The miners of Pennsylvania and West Virginia, finding their unions wrecked and their lot growing worse under the floods of men from southern and eastern Europe, migrated in great numbers to the Middle West and the Southwest. But of late the coal fields of the Middle West have been invaded by multitudes of Italians, Croatians, and Lithuanians, so that even here American and Americanized miners have their backs to the wall. As for the displaced trade-unionists who sought asylum in the mines of Oklahoma and Kansas, the pouring in of raw immigrants has weakened their bargaining power, and many have gone on to make a last stand in the mines of New Mexico and Colorado.

Each exodus left behind an inert element which accepted the harder conditions that came in with the immigrants, and a strong element that rose to better conditions in the mines and in other occupations. As for the displaced, the Iliad of their woes has never been sung—the loss of homes, the shattering of hopes, the untimely setting to work of children, the struggle for a new foothold, and the turning of thousands of self-respecting men into day laborers, odd-job men, down-and-outers, and "hobos."

During the last fifteen years the flood of gold has brought in a spring-tide of prices. Since 1896 the retail cost to Americans of their fifteen principal articles of food has risen 70 per cent. Wages should have risen in like degree if the workman is to maintain his old standard, to say nothing of keeping his place in a social procession which is continually mounting to higher economic levels. But the workingman has been falling behind in the procession. In the soft-coal fields of Pennsylvania, where the Slav dominates, the coal-worker receives 42 cents a day less than the coal-worker in the mines of the Middle West and Southwest, where he does not dominate. In meat-packing, iron and steel, cotton manufacture, and other foreignized industries the inertia of wages has been very marked. The presence of the immigrant has prevented a wage advance which otherwise must have occurred.

What a college man saw in a copper mine in the Southwest gives in a nutshell the logic of low wages. The American miners getting \$2.75 a day are abruptly displaced without a strike by a train load of five hundred raw Italians brought in by the company and put to work at from \$1.50 to \$2.00 a day. For the Americans there is

nothing to do but to "go down the road." At first the Italians live on bread and beer, never wash, wear the same filthy clothes night and day, and are despised. After two or three years they want to live better, wear decent clothes, and be respected. They ask for more wages, the bosses bring in another train load from the steerage, and the partly Americanized Italians follow the American miners "down the road."

"The best we get in the mill now is greenhorns," said the superintendent of a tube mill. "When they first come, they put their heart into it and give a full day's work. But after a while they begin to shirk and do as little as they dare." It is during this early innocence that the immigrant accepts conditions that he ought to spurn. The same mill had to break up the practice of selling jobs by foremen. On the Great Northern Railroad the bosses mulcted each Greek laborer a dollar a month for interpreter. The "bird of passage" who comes here to get ahead rather than to live, not only accepts his seven-day week and the twelve-hour day, but often demands them. Big earnings blind him to the cost of overwork. It is the American or the half-Americanized foreigner who rebels against the eighty-four-hour schedule.

When capital plays lord of the manor, the Old World furnishes the serfs. In some coal districts of West Virginia the land, streets, paths, roads, and miners' cabins, the store, the school, and the church are all owned by the coal company. The company pays the teacher, and no priest or clergyman objectionable to it may remain on its domain. One may not step off the railroad's right of way, pass through the streets, visit mine or cabin, without permission. There is no place where miners meeting to discuss their grievances may not be dispersed as trespassers. Any miner who talks against his boss or complains is promptly dismissed and ejected from the 35,000 acres of company land. Hired sluggers, known as the "wrecking-gang," beat up or even murder the organizer who tries to reach the miners. It is needless to say that the miners are all negroes or foreigners.

After an industry has been foreignized, the notion becomes fixed in the minds of the bosses that without the immigrants the industry would come to a standstill. "If it wasn't for the Slavs," say the superintendents of Mesaba mines, "we couldn't get out this ore at all, and Pittsburgh would be smokeless. You can't get on American to work here unless he runs a locomotive or a steam shovel. We've tried it; brought 'em in carloads at a time, and they left."

"Wouldn't they stay for \$3.00 a day?" I suggested.



"No, it's not a matter of pay. Somehow Americans nowadays aren't any good for hard or dirty work."

Hard work! And I think of Americans I have seen in their last asylum of the native-born, the far West, slaving with ax and hook, hewing logs for a cabin, ripping out boulders for a road, digging irrigation ditches, drilling the granite, or timbering the drift—Americans shying at open-pit, steam-shovel mining!

The secret is that with the insweep of the unintelligible bunk-house foreigner there grows up a driving and cursing of labor that no self-respecting American will endure. Nor can he bear to be despised as the foreigner is. It is not the work or the pay that he minds, but the stigma. That is why, when a labor force has come to be mostly Slav, it will be all Slav. But if the supply of raw Slavs were cut off, the standards and status of the laborers would rise, and the Americans would come into the industry.

Does the man the immigrant displaces rise or sink? The theory that the immigrant pushes him up is not without some color of truth. In Cleveland the American and German displaced iron-mill workers seem to have been absorbed in other growing industries. They are engineers and firemen, bricklayers, carpenters, structural iron workers, steamfitters, plumbers, and printers. Leaving pick and wheelbarrow to Italian and Slav, the Irish are now meter-readers, wire-stringers, conductors, motormen, porters, caretakers, night watchmen, and elevator men. I find no sign that either the displaced workmen or his sons have suffered from the advent of Pole and Magyar. On the other hand, in Pittsburgh and vicinity, the new immigration has been like a flood sweeping away the jobs, homes, and standards of great numbers, and obliging them to save themselves by accepting poorer employment or fleeing to the West. The cause of the difference is that Pittsburgh held to the basic industries, while in Cleveland numerous high-grade manufacturers started up which absorbed the displaced workmen into the upper part of the laboring force.

Unless there is some collateral growth of skill-demanding industries, the new immigrants bring disaster to many of the workingmen they undercut. The expansion of the industry will create some new jobs, but not enough to reabsorb the Americans displaced. Thus in the iron mines of Minnesota, out of the seventy-five men kept busy by one steam shovel, only thirteen get \$2.50 a day or more, and \$2.50 is the least that will maintain a family on the American standard. It is plain that the advent of sixty-two cheap emigrants might displace sixty-two Americans, while it would create only thirteen decent-wage jobs for them. Scarcely any industry can grow fast enough to reabsorb into skilled or semi-skilled positions the displaced workmen.

Employers observe a tendency for employment to become more fluctuating and seasonal because of access to an elastic supply of aliens, without family or local attachments, ready to go anywhere or to do anything. In certain centers immigrant laborers form, as it were, visible living pools from which the employer can dip as he needs. Why should he smooth out his work evenly throughout the year in order to keep a labor force composed of family men when he can always take "ginnies" without trouble and drop them without compunction? Railroad shops are coming to hire and to "fire" men as they need them instead of relying upon the experienced regular employees. In a concern that employs 30,000 men the rate of change is 100 per cent a year and is increasing. Labor leaders notice that employment is becoming more fluctuating, that there are fewer steady jobs, and the proportion of men who are justified in founding a home diminishes.

## 226. Immigration and Unionism<sup>21</sup>

BY W. JETT LAUCK

A significant result of the extensive employment of southern and eastern Europeans in mining and manufacturing is seen in the general weakening and, in some instances, in the entire demoralization of the labor organizations which were in existence before the arrival of the races of recent immigration. This condition of affairs has been due to the inability of the labor-unions to absorb within a short time the constantly increasing number of new arrivals. The southern and eastern Europeans, as already pointed out, because of their tractability, their lack of industrial experience and training, and their necessitous condition on applying for work, have been willing to accept, without protest, existing conditions of employment. Their desire to earn as large an amount as possible within a limited time has also rendered the recent immigrant averse to entering into strikes which involved a loss of time and a decrease in earnings. The same kind of thriftiness has led the immigrant wage-earner to refuse to maintain his membership in the labor-unions for an extended period and has consequently prevented the complete unionization of certain occupations in some cases, and, in others, the accumulation of a defense fund by the labor organizations. The high degree of illiteracy among recent immigrants and the inability of the greater number of them to speak English have also caused their organization into unions by the native Americans and older immigrants to be a matter of large expense. The diffi-

<sup>21</sup>Adapted from "The Real Significance of Recent Immigration," *North American Review*, CXCV, 2008-9. Copyright, 1912.

culty of the situation, from the standpoint of the labor organizations, is further increased by the conscious policy of the employers of mixing races in certain departments or divisions of industries and thus decreasing the opportunities for any concerted action because of a diversity of language in the operating forces. In mining operations, by way of illustration, in many sections, no one race is permitted to secure a controlling number in the operating forces of a single mine or mining occupation because of the fear that a common language would enable them to be readily organized for the purpose of seeking redress for real or fancied grievances.

### E. THE ISSUES OF RACE

#### 227. An Impending Brain Famine<sup>22</sup>

BY WILLIAM McDUGALL

The civilization of America depends on your continuing to produce A and B men in fair numbers. And at present the A men are 4 per cent, the B men 9 per cent, and you are breeding from the lower part of the curve. The A men and B men, the college bred, do not maintain their numbers, while the population swells enormously. If this goes on for a few generations, will not the A men, and even the B men, become rare as white elephants, dropping to a mere fraction of 1 per cent? It is only too probable.

The present tendency seems to be for the whole curve to shift toward the wrong end with each successive generation. And this is probably true of moral qualities, as well as of intellectual stature. If the time should come when your A and B men together are no more than 1 per cent, or a mere fraction of 1 per cent, of the population---what will become of your civilization?

Let me state the case more concretely, in relation to one of the great essential professions of which I have some inside knowledge; namely, the medical profession. Two hundred or one hundred years ago, the knowledge to be acquired by the medical student, before entering upon the practice of his profession, was a comparatively small body of empirical rules. The advance of civilization has enormously multiplied this knowledge, and the very existence of our civilized communities depends upon the continued and effective application of this vast body of medical art and science. The acquiring and the judicious application of this mass of knowledge makes very much greater demands upon the would-be practitioner than did the mastery of the body of rules of our forefathers. Accordingly,

<sup>22</sup>Adapted from *Is America Safe for Democracy?*, 163-68. Copyright by Charles Scribner's Sons, 1921.

the length of the curriculum prescribed for our medical students has constantly to be drawn out, until now its duration is some six years of post-graduate study.

The students who enter upon this long and severe course of study are already a selected body; they have passed through high school and college successfully. We may fairly assume that the great majority of them belong to the A or B or at least the C+ group in the army scale of intelligence.

What proportion of them, do you suppose, prove capable of assimilating the vast body of medical knowledge to the point that it renders them capable of applying it intelligently and effectively? If I may venture to generalize from my own experience, I would say that a very considerable proportion, even of those who pass their examinations, fail to achieve such effective assimilation. The bulk of modern medical knowledge is too vast for their capacity of assimilation, its complexity too great for their power of understanding. Yet medical science continues to grow in bulk and complexity, and the dependence of the community upon it becomes ever more intimate.

In this one profession, then, which makes such great and increasing demands on both the intellectual and the moral qualities of its members, the demand for A and B men steadily increases; and the supply in all probability is steadily diminishing with each generation.

And what is taking place in this one profession is, it would seem, taking place in all the great professions and higher callings. Our civilization, by reason of its increasing complexity, is making constantly increasing demands upon the qualities of its bearers; the qualities of those bearers are diminishing or deteriorating, rather than improving.

## 228. The Case for Blue Blood<sup>23</sup>

BY PRESCOTT F. HALL,

There is one aspect of immigration restriction in the various countries which does not often receive much attention; namely, the possibility of its use as a method of world-eugenics. Most persons think of migration in terms of space—as the moving of a certain number of people from one part of the earth's surface to another. Whereas the much more important aspect of it is that of a functioning in time.

This comes from two facts. The first is that the vacuum left

<sup>23</sup>Adapted from "Immigration Restriction and World Eugenics," *Journal of Heredity* (March, 1919).

in any country by immigration is rapidly filled up through a rise in the birth-rate. The second fact is that immigration to any country of a given stratum of population tends to sterilize all strata of higher social and economic levels already in that country. So true is this that nearly all students of the matter are agreed that the United States would have a larger population today if there had been no immigration since 1820, and, it is needless to add, a much more homogeneous population. As long as the people of any community are relatively homogeneous, what differences of wealth and social position there may be do not affect the birth-rate, or do so only after a considerable time. But put into that community a number of immigrants, inferior mentally, socially, and economically, and the natives are unwilling to have their children associate with them in work or social life. They then limit the number of their children in order to give them the capital or education to enter occupations in which they will not be brought into contact with the new arrivals.

What is the result, then, of the migration of 1,000,000 persons of lower level into a country where the average is of a higher level? Considering the world as a whole, there are, after a few years, 2,000,000 persons of the lower type in the world, and probably from 500,000 to 1,000,000 less of the higher type. The proportion of lower to higher in the country from which the migration goes may remain the same; but in the country receiving it, it has risen. Is the world as a whole the gainer?

The moral seems to be this: Eugenics among individuals is encouraging the propagation of the fit, and limiting or preventing the multiplication of the unfit. World-eugenics is doing precisely the same thing as to races considered as wholes. Immigration restriction is a species of segregation on a large scale, by which inferior stocks can be prevented from both diluting and supplanting good stocks. Just as we isolate bacterial invasions, and starve out the bacteria by limiting the area and amount of their food-supply, so we can compel an inferior race to remain in its native habitat, where its own multiplication in a limited area will, as with all organisms, eventually limit the numbers and therefore its influence. On the other hand, the superior races, more self-limiting than the others, with the benefits of more space and nourishment will tend to still higher levels.

This result is not merely a selfish benefit to the higher races, but a good to the world as a whole. The object is to produce the greatest number of those fittest not for survival merely, but fittest for all purposes. The lower types among men progress, so far as their racial inheritance allows them to, chiefly by imitation and emulation.

The presence of the highest development and the highest institutions among any race is a distinct benefit to all the others. It is a gift of psychological environment to anyone capable of appreciation.

## 229. Much Ado About the Nordic<sup>24</sup>

BY MAURICE R. DAVIE

We have to listen in recent years to a great deal of discussion concerning the relative worth of the different branches of the white race, especially from the point of view of heredity. There have been published a number of books devoted to the self-admiration of the white race and to the glorification of the Nordic branch. We are told in them that "race is everything," that among the races the whites stand supreme, while the Nordic is the *Homo albus*, the white man *par excellence*. The Nordic, from around the Baltic and North seas, is "the Great Race," "the best of all human breeds." His stature, his light-colored eyes, his fair skin and blond hair, his straight nose, his splendid fighting and moral qualities, and especially his long skull, each and every one of these characteristics marks him as the superior being. In the old immigration these "rulers, organizers, and aristocrats" predominated. They also made up the bulk of Colonial arrivals in this country. Now everything is likely to go to ruin because this supreme group is losing ground and its place in immigration is being taken by Alpines and Mediterraneans. The Alpines, from Central and Eastern Europe, are distinctly inferior. They are round-skulled, of medium height, and usually of dark-colored eyes and hair. The Mediterranean or Iberian subspecies is also inferior, even though it is long-skulled like the Nordic race. But the absolute size of the skull is less. The hair and eyes are very dark or black, and the skin more or less swarthy. The stature is stunted in comparison to that of the Nordic race and the musculature and bony framework weak. Both differ from the Nordic intellectually and morally as well as physically, and we are told that the moral, intellectual, and spiritual attributes are as persistent as physical characters, and are transmitted unchanged from generation to generation. Some such belief in the hereditary superiority of Northern and Western Europeans over Southern and Eastern Europeans underlies the support commonly given to the per centum limit plan.

If all of this is true and if the Nordic with his various characteristics is the chief possessor of desirable qualities, then it is hard to

<sup>24</sup>Adapted from *A Constructive Immigration Policy*, pp. 32-35. Copyright by Yale University Press, 1923.

escape the conclusion that the problem can be definitely settled by providing our immigration inspectors with calipers and yardsticks to measure the stature and cephalic index of all arrivals, and by instructing them to admit only those with fair skin, light-colored eyes, and blond hair. Or perhaps the difference in the number of each nationality to be admitted under the quota system represents the relative worth of each, and we need go no farther. Even if race distinction is not drawn that far, the comparison of ethnic values as between Northwestern and other Europeans, as made by these authors and to a certain extent by the 3 per cent law, is exceedingly arbitrary. I do not believe that any biologist or anthropologist would subscribe to that comparison. How is it possible to tell how much of the existing differences is due to heredity and how much to social environment? Is any race, aside from a few primitive examples, unmixed? Is it possible, in considering races as now adapted, to compare their inherent adaptability and tendencies in new environments? Furthermore, is it possible to speak of the hereditary traits of a race, as though one race had practically a monopoly of desirable qualities? "The hereditary characteristics of a race include the whole range of varying forms that belong to it and, for this reason, the hereditary characteristics of different races show very slight differences only."

Certainly it cannot be said that all Northwestern Europeans, or all Nordics, are desirable from any or all points of view and all Southern and Eastern Europeans, or all Alpines and Mediterraneans, are undesirable. Each race is exceedingly variable in all its features. What racial group has not its inferior as well as its superior members? Is there any society that has not its defectives, dependents, and delinquents? You will find the latter in Northern and Western Europe as well as in Southern and Eastern Europe. You will also find superior individuals in either place. No clean-cut lines can be drawn between the different sections. It will be found necessary to make exceptions even in the case of whole groups, no matter what criteria are used. The Bohemians, for instance, are Slavs from South-Central Europe, yet they compare so favorably with the old immigrants that it is not uncommon to find them so classified, although the bulk of Bohemian immigration coincides with the new. They have a much lower rate of illiteracy than the Germans, many are highly skilled workers, and all in all they are an intelligent, progressive people who have made a fine record here and have contributed much to American society.

If, on the other hand, the sweeping statements concerning the relative desirability of the different groups are qualified to mean, as

they should, merely averages, then something may be said for this point of view. It may be possible to establish the fact that the average of Nordics is higher than the average of Alpines and Mediterraneans. Even if that is not possible, still on other grounds the presumption is in favor of Nordics. They are more akin, as we have already said, to the native American stock. They represent a lesser problem of Americanization. They seem, on the average, to be a better physical type. But there is no guaranty in our present arrangement that only the more desirable individuals of either group are being admitted. The 3 per cent law is merely quantitative. It may have some value as a rule of thumb, but that is the most that can be said for it. It is not scientifically sound. Scientific research has not yet given us any basis upon which we can proceed in the case of European immigration to determine, on racial grounds, what kind of germ plasm should or should not enter our borders.

### 230. The Problem of Racial Differences<sup>25</sup>

BY A. L. KROEBER

Are the human races alike or dissimilar in mentality and character? Are some lower than others, or are they all on a plane as regards potentiality? The answers to these questions are of theoretical import, and naturally also bear on the solution of the practical race problems with which many nations are confronted.

As long as an inquiry remains sufficiently abstract or remote, the desirability of such inquiry is likely to go unquestioned. As soon, however, as investigation touches conduct—for instance, our actual relations with other races—a sentiment has a way of rising, to the effect that perhaps after all the problem does not so much call for knowledge as for action.

In approach to the problem, a consideration stands out. If the human races are identical in capacity, or if, though not absolutely alike, they average substantially the same in the sum total of their capacities, then such differences as they have shown in their history or show in their present condition must evidently be the result mainly of circumstances external to heredity. In that case, knowledge of the historical or environmental circumstances, and analysis of the latter, become all-important to understanding.

On the other hand, if hereditary racial inequalities exist, one can expect that the historical or cultural influences, however great they may be, will nevertheless tend to have their origin in the hered-

<sup>25</sup>Adapted from *Anthropology*, pp. 58, 61, 71-73, 81-85. Copyright by Harcourt, Brace & Co., Inc., 1923.



itary factors and to reinforce them. In that case, differences between two groups would be due partly to underlying heredity and partly to overlying cultural forces tending on the whole in the same direction. Yet even in that case, before one could begin to estimate the strength of the true racial factors, the historical ones would have to be subtracted.

Thus, in either event, the first crux of the problem lies in the recognition and stripping off of cultural, social, or environmental factors, so far as possible, from the complex mass of phenomena which living human groups present. In proportion as these social or acquired traits can be determined and discounted, the innate and truly racial ones will be isolated, and can then be examined, weighted, and compared. Such, at any rate, is a reasonable plan of procedure.

The intermingling of hereditary and environmental factors is intricate when races are considered from the side of anatomy and physiology. It is evident that the intermingling will be even more intricate in the mental sphere. After all, bodily functioning varies only within fairly definite limits. When external influences press too strongly upon the innate nature of the organism, the latter ceases to function and dies. The mind, on the other hand, however much its structure may be given by heredity, depends for its content wholly on experience, and this experience can be thoroughly varied. Individuals of the same organic endowment may conceivably be born either in the uppermost stratum of a highly refined civilization, or among the most backward and remote savages. Whether this actually happens, and to what degree, is of course precisely the problem which we are trying to solve.

But that it is theoretically and logically possible cannot be denied; and here a vicious circle of reasoning begins. One argument says: There have been no recognized geniuses among peoples like the Hottentots, and the sum total of their group achievement is ridiculously small; therefore it is clear that the Hottentot mind must be inferior. The opposite argument runs: Hottentot cultural environment is so poor and limited that the finest mind in the world reared under its influence would grow up relatively sterile and atrophied; therefore it is probable that the mind of the Hottentot is intrinsically identical with our own, or at least of equivalent capacity, and that Hottentot geniuses have actually been born but have been unable to flourish as geniuses.

Evidently the same facts are before those who advocate these opposite views, but these facts are viewed from diametrically opposite sides. If one starts to travel around the logical circle in one direction, one can keep revolving indefinitely and find ever fresh supporting evi-

dence. If, however, one begins to revolve around the same circle of opinion in the opposite direction, it is just as easy and just as compelling to continue to think in this fashion and to find all testimony corroborative.

In such a situation it is possible to realize that from the point of view of proof, or objective truth, one view is worth as much as the other: which is nothing. It is an emotional bias that inclines one man toward the conviction of race superiority and another to that of race equality.

The proofs in either case are for the most part a mere assembling of *ex parte* testimony. It is easy enough to advocate impartiality. The difficulty is in being impartial; because both the hereditary and the environmental factors are in reality unknown quantities. What we have objectively before us is such and such a race or group of people, with such and such present traits and historical record. These phenomena being the product of the interaction of the two sets of causes, we could of course, if we knew the strength of one, compute the strength of the other. But as we have isolated neither, we are dealing with two indeterminate variables. Evidently the only way out of the dilemma, at any rate the only scientific way, is to find situations in which one of the factors is, for the time being, fixed. In that case the strength of the other factor will of course be proportionate to the attainments of the groups.

Actually, such instances are excessively difficult to find. There are occasional individuals with identical heredity, namely, twins produced from the division of a single ovum. In such twins, the strength of environmental influences can be gauged by the difference in their careers and achievements. Yet such twins are only individuals, and it is illegitimate to make far-reaching inferences from them to larger groups, such as the races. It is conceivable that heredity might on the whole be a more powerful cause than environment, and racial groups still average substantially alike in their heredity. Because a natively gifted and a natively stunted individual within the group vary conspicuously in achievement, even under similar environment, it does not follow that races differ in germ plasm because they differ in achievements.

If, on the other hand, one sets out to discover cases of identical environment for distinct racial strains, the task quickly becomes even more difficult. Very little analysis usually suffices to show that the environment is identical only up to a certain point, and that beyond this point important social divergences begin.

As regards the relations and associations of human beings, the welcome which they extend or the aloofness which they show to one

another, there is always a color-line. This means not only difference in opportunity, but difference in experience, habit formation, practices, and interests.

It has been suggested that a fruitful approach to the problem of race capacity is that of examining the cultural record, the achievements in civilization, of groups. While this approach is theoretically possible, and while it is often attempted, it is subject to little control and therefore unlikely to yield dependable conclusions.

First of all, the culture history record of a people must be known for considerable periods before one may validly think of inferring therefrom anything as to the faculties of that people. The reason is that active civilization, as a productive process, is slow to grow up, slow to be acquired. Mere momentum would normally keep the more advanced of two peoples ahead of the other for a long time. In proportion as groups of nations were involved, the momentum would continue for still longer periods. Civilization flourished for some thousands of years in the Near East, and then about the Mediterranean, before it became established with equal vigor and success in Northern Europe. Had Julius Caesar or one of his contemporaries been asked whether by any sane stretch of phantasy he could imagine the Britons and Germans as inherently the equals of Romans and Greeks, he would probably have replied that if these northerners possessed the ability of the Mediterraneans they would long since have given vent to it, instead of continuing to live in disorganization, poverty, ignorance, rudeness, and without great men or products of the spirit. And, within limits, Caesar would have been right, since it was more than a thousand years before Northern Europe began to draw abreast of Italy in degree and productivity of civilization. Two thousand years before Christ, a well-informed Egyptian might reasonably have disposed in the same sweeping way of the possibility of Greeks and Italians being the equals of his own people in capacity. What had these barbarians ever done to lead one to think that they might yet do great things?

In general, arguing from performance to potentiality, from accomplishment to achievement, is valid under conditions of set experiment—such as are impossible for races—or in proportion as the number and variety of observations is large. A single matched competition may decide pretty reliably as between the respective speed capacities of two runners. But it would be hazardous to form an opinion from a casual glimpse of them in action, when one might happen to be hastening and the other dallying. Least of all would it be sound to infer that essential superiority rested with the one that was in advance at the moment of observation, without knowledge of their starting points, the difficulty of their routes, the motive or goal of their courses.

It is only as the number of circumstances grows, from which observations are available, that judgment begins to have any weight. The runner who has led for a long time and is increasing his lead, or who has repeatedly passed others, or who carries a load and yet gains ground, may lay some claim to superiority. In the same way, as between races, a long and intimate historical record, objectively analyzed, gives some legitimate basis for tentative conclusions as to their natural endowment. But how long the record must be is suggested by the example already cited of Mediterranean versus Nordic cultural pre-eminence.

The fallacy that is most commonly committed is to argue from what is the history of great groups is only an instant: this instant being that at which one's own race or nationality is dominant. The Anglo-Saxon's moment is the present; the Greek's the age of Pericles. Usually, too, the dominance holds only for certain aspects: military or economic or aesthetic superiority, as the case may be; inferiorities on other sides are merely overlooked. The Greek knew his venality, but looked down on the barbarian nevertheless. Anglo-Saxon failure in the plastic and musical arts is notorious, but does not deter most Anglo-Saxons from believing that they are the elect in quality, and from buttressing this conviction with the evidences of present industrial, economic, and political achievements—and perhaps past literary ones.

The drift of this discussion may seem to be an unavowed argument in favor of race equality. It is not that. As a matter of fact, the bodily differences between races would appear to render it in the highest degree likely that corresponding congenital mental differences do exist. These differences might not be profound, compared with the sum total of common human faculties, much as the physical variations of mankind fall within the limits of a single species. Yet they would preclude identity. As for the vexed question of superiority, lack of identity would involve at least some degree of greater power in certain respects in some races. These pre-eminences might be rather evenly distributed, so that no one race would notably excel the others in the sum total or average of its capacities; or they might show a tendency to cluster on one rather than on another race. In either event, however, the fact of race difference, qualitative if not quantitative, would remain.

But it is one thing to admit this theoretical probability and then stop through ignorance of what the differences are, and another to construe the admission as justification of mental attitudes which may be well founded emotionally but are in considerable measure unfounded objectively.

In short, it is a difficult task to establish any race as either superior

or inferior to another, but relatively easy to prove that we entertain a strong prejudice in favor of our own racial superiority.

## F. THE RESTRICTION OF IMMIGRATION

### 231. The First Quota Act<sup>20</sup>

SEC. 2 (a) That the number of aliens of any nationality who may be admitted under the immigration laws to the United States in any fiscal year shall be limited to 3 per centum of the number of foreign-born persons of such nationality resident in the United States as determined by the United States census of 1910.

b) For the purposes of this Act nationality shall be determined by country of birth.

c) The Secretary of State, the Secretary of Commerce, and the Secretary of Labor, jointly, shall, as soon as feasible after the enactment of this Act, prepare a statement showing the number of persons of the various nationalities resident in the United States as determined by the United States census of 1910, which statement shall be the population basis for the purposes of this Act.

d) When the maximum number of aliens of any nationality who may be admitted in any fiscal year under this Act shall have been admitted all other aliens of such nationality, except as otherwise provided in this Act, who may apply for admission during the same fiscal year shall be excluded: *Provided*, That the number of aliens of any nationality who may be admitted in any month shall not exceed 20 per centum of the total number of aliens of such nationality who are admissible in that fiscal year.

SEC. 6. That it shall be unlawful for any person, including any transportation company other than railway lines entering the United States from foreign contiguous territory, or the owner, master, agent, or consignee of any vessel, to bring to the United States either from a foreign country or any insular possession of the United States any alien not admissible under the terms of this Act or regulations made thereunder, and if it appears to the satisfaction of the Secretary of Labor that any alien has been so brought, such person or transportation company, or the master, agent, owner, or consignee of any such vessel, shall pay to the collector of customs of the customs district in which the port of arrival is located the sum of \$200 for each alien so brought, and in addition a sum equal to that paid by such alien for his transportation from the initial point of departure, indicated in his

<sup>20</sup>Adapted from An Act to Limit the Immigration of Aliens into the United States, approved May 19, 1921, and amended May 11, 1922, chap. 187, 42 U.S. Statutes at Large 540.

ticket, to the port of arrival, such latter sum to be delivered by the collector of customs to the alien on whose account assessed.

### 232. The Second Quota Act<sup>27</sup>

BY CONSTANTINE M. PANUNZIO

The immigration law of 1924 is an addition to rather than a substitute for the basic law of February 5, 1917. It takes the place, however, of the Three Percentum Act of 1921.

In its principal provisions the 1924 law departs from previous immigration legislation in four major respects: (I) it reduces the number of aliens admissible yearly to the lowest minimum thus far adopted in the history of immigration in the United States; (II) it defines the terms "immigrant," "non-immigrant," and "quota immigrant" and introduces a visa system which is in the nature of preliminary examination and certification abroad; (III) it takes an initial step in the direction of positive selection by setting out specifically the preferences within the quotas; and (IV) it extends the principle of selection-by-rejection by excluding definitely and completely certain races, and indirectly by greatly reducing the number admissible from certain subgroups of the Caucasian race.

I. The number of immigrants admissible under the new quota is reduced to about one-half that provided for in the 1921 law, or from approximately 358,000 to about 165,000 per year. This numerical reduction was effected by two principal changes in the quota law of 1921: by lessening the percentage from 3 to 2 and by shifting the quota basis from 1910, when 9,249,000 foreign-born persons were in the United States, to the 1890 Census, which numbered about 8,000,000 foreign-born.

These specific reductions do not represent, however, the total diminution in the immigration flow which the 1924 law intends to effect. Certain provisions of the law aim to diminish the stream indirectly: professional actors, artists, lecturers, singers, nurses, and persons belonging to any learned profession and domestic servants were, under the law of 1911, permitted to enter, if otherwise admissible, "notwithstanding the maximum number of aliens of the same nationality . . . who shall have entered the United States." Under the 1924 law these are allowed to enter only as quota immigrants.

Again, the 1921 law permitted persons who had resided continuously in so-called contiguous territory for at least five years imme-

<sup>27</sup>Adapted from an unpublished article entitled "The Immigration Bars of 1924." 1925.

diately preceding to enter irrespective of quotas; the 1924 law, on the other hand, exempts only persons born within such territory.

II. In the visa system is found the most important administrative feature of the law of 1924.

The visa system, however, does not—contrary to what may be supposed—provide for the examination of aliens abroad. It simply makes provision for a preliminary inquiry in the country of departure into the migrant's ability to meet the requirements of the United States immigration laws. A United States consular officer abroad in whose hands rests the power to issue immigration visas conducts the inquiry.

In order to secure a visa an intending immigrant is required to fill out and to present in person, in duplicate form, a prescribed blank in which he gives complete descriptive information regarding himself, his personal and family history; whether he is able to "speak, read and write"; whether he has even been an inmate of an almshouse or prison or whether he or either of his parents has ever been an inmate of an institution for the care of the insane. The prospective immigrant, moreover, is required to furnish two copies of his photograph and "if available" two copies of his "dossier," "prison record," and "military record"; two certified copies of his birth certificate and "two copies of all other available records" concerning him which may be in the possession of the government to which he owes allegiance. All of this information is required of every member of a family, each of whom must also pay \$1.00 for the final application and \$9.00 for the immigration visa.

The preliminary inquiry upon which the visa is issued does not in any way eliminate the further and real examination at the time and place of arrival; nor does the possession of an unexpired visa guarantee an immigrant admission into the United States.

III. Important provisions of the 1924 law aim evidently to effect a measure of positive selection. They provide that in granting visas combined preference shall be given, to the extent of 50 per cent of the monthly or annual quota, to fathers and mothers, wives, and unmarried children under twenty-one years of age of American citizens, and to persons "skilled in agriculture."

IV. By far the most far-reaching aspect of the new law is the qualitative provision which is implied in the distribution of quotas. This provision, broadly speaking, effects the complete exclusion of the Asiatics and certain other non-white races, including the Japanese, and extends by indirection the principle of limited exclusion of certain subdivisions of the Caucasian race first embodied in the law of 1921.

The law provides:

The annual quota of any nationality shall be two per centum of the number of foreign-born individuals of such a nationality resident in Continental United States as determined by the United States Census of 1890, but the minimum quota of any nationality shall be 100. The Secretary of State, the Secretary of Commerce, and the Secretary of Labor are authorized to determine the quotas and to report annually to the President, who "shall proclaim and make known the quotas so reported."

These 1924 quotas effect a reduction upon the 1921 quotas for all the countries subject to the quota regulation. The reductions, however, vary greatly, being greatest in the case of Southern and Eastern Europe and least in that of the northern and western countries of Europe. But in the case of no country or region of birth is the quota less than 100.

### 233. In the Wake of Restriction<sup>28</sup>

In the year ended June 30, 1923, our immigration increased to 522,919, and, in the fiscal year just ended, to 706,896.

The great, perhaps almost startling, increase in immigration during the past two years might very naturally suggest a substantial breaking down of the percentum limit law, but such is not the fact. What happened was almost entirely due to three important factors that might have been discerned at the time the law was enacted.

1. The quota limit provision was applicable only to Europe, Africa, Australasia, and that part of Asia commonly known as the Near East. It did not seek to limit immigration from Canada, Mexico, and other parts of the New World.

2. The quotas allotted to the British Isles, Germany, and other countries of Northwestern Europe were greater, and in some instances very much greater, than the normal immigration from those countries. In other words, reckoning on the basis of immigration during the quarter of a century preceding the act, the quota law put a severe restriction on the hitherto great movements from countries of South and East Europe and the Near East, but left the way open for substantial increases from North and West Europe.

3. The quota limit law, like all preceding immigration legislation, contained a great many exceptions under which applicants could be admitted in excess of allotted quotas, and during the past fiscal year such admissions were also considerably increased by reason of court decisions which, until reversed by the Supreme Court late in the year, materially liberalized the terms of the law.

<sup>28</sup>Adapted from *Report of the Commissioner General of Immigration* (1924), p. 3.



laden with goods such as we had with some success begun to produce for ourselves. This inroad of competition upon our marts of trade proved disastrous to many godly families of Philadelphia, New York, and Boston, often ruining their businesses, and, worse fate, making it possible for mere mechanics to come upon the principal streets parading their pride in new garments sold to them by foreigners at ridiculously low prices. After wrestling with this evil for a time, we devised a remedy both simple and effective. It was to tax such goods as were foisted upon us, placing the tax high enough to maintain in the storehouses of the Club that degree of scarcity needed to aid our own loyal traffickers in goods. At later times by raising the rate imposed, and by extending the application of it to other articles, we were enabled to prevent such abundance on the markets as would destroy the traffic of gentlemen and permit mean orders of persons to live after the fashion of selectmen.

Meanwhile, sundry peoples of divers European nations, learning of the fair fields we possessed, began to come to these shores in vast throngs. For a time this did not sorely perplex us, for we had great need of much labor to open mines, to build roads and canals, and to clear giant timbers and stubborn shrubs from the land. But soon they foolishly demanded the use of portions of the lands they had cleared, and even dared hope to aid in the deliberations of the American Club, a thing which could in no wise be tolerated. Moreover, many of them were so weakly and shiftless as to burden our generosity. And some were heathen from the Orient, who did live most wretchedly and worship visible gods.

We therefore issued decrees against the admittance of those who had slanting eyes or who were otherwise deformed, against those who would not agree to work without preaching un-American doctrines, and against those who foolishly made agreements concerning their labor before they came. To the persecuted of other lands we still offered asylum, requiring them only to make our garments and stoke our furnaces in payment for their admission to freedom. But in order to prevent grievous dissensions in our midst, we insisted that in matters of governance they should conduct themselves strictly according to the charter of the Club, as it was interpreted by the oldest and best families.

Our hope was to debar all those who were too weak to work and all those who were too insolent to work with due humility. But from the beginning, our growing manufactures and increasing commercial labors often forced us to bring in such cooks, scrub-women, clerks, laborers for the fields, and divers sorts of mechanics as could keep the Club and its surroundings in order during the periods of our devotion to double-entry Scriptures.

Most of these had to be got in those nations which had unrighteously tried to take our lands; but many of them were black men led by various persuasions to come over from Africa and help us. The black men were peaceable, worked humbly, and caused no great trouble until after an unfortunate fight within the Club had led to their being freed. The white laborers were given to unruliness and often were prone to announce most subversive doctrines. For a long time we knew not how to deal with these recalcitrant ones. But, recently, some of them have been quieted when the Christian patriots of the Klan have confronted them with the Cross.

Some have had to be forced to be free, being consigned to dungeons to repent and recant of their pernicious teachings. And lastly, some have had to be driven from our shores. In no case did we ever hesitate, whatever the pain it might cost us, to take such measures as would, under Providence, prevent the Americanism of the Club from falling below par value. This diligent protection of the privileges of the membership and its servants has truly brought us vast benefits.

With less than a tenth of the population of the world, we consume more than a third of all the shoes made in the world; a third of all the cotton goods; two-fifths of all the copper; half the printing paper; half the timber; three-fifths of the steel; and more than seven-tenths of the gasoline. In order to use so much gasoline, we require more than four-fifths of the automobiles produced in the world. There is one telephone for every eight people in the Club and its servant quarters. In countless homes and public places, phonographs enliven the dragging moments and lighten the weary feet. If a member prefer music from a distance, he can, for a small expenditure, instal a radio set.

Our serving maids wear furs; our waiters disport themselves in frock coats when on duty and nobby fashions when off; our clerks and stenographers delight in the flimsy softness of silks and satins; and the wives of even the small merchants sally forth proudly clad in rich oriental fabrics conveniently woven on our own Atlantic seaboard.

It has been found that our workmen are paid wages more than twice as high as are paid to like classes in England, and four or five times as high as are paid in other European countries. The average family income in our community is estimated by some to be as high as twenty-seven hundred dollars per year. In candor we must admit that many families count much higher in making the average than they do in receiving income; but even so, their gain from the privileges of the Club are vastly greater than they could hope to derive elsewhere.

These rich benefits are directly due to the careful direction of endeavors and the scrupulous selection of personnel carried on by the Club. Whatever tariffs we have imposed have amassed us wealth; whatever bars we have erected against immigrants have held such wealth for ourselves; and the Monroe Doctrine has kept loyal American hands at the helm of affairs in the New World.

Surely, therefore, we shall not be so foolish as to sacrifice what divine favor, ably assisted by our genius, has given us, by opening our doors to the traders and workers of the world. We must go forward to the fulfilment of our manifest destiny as the Exclusive Club of the United States, in which patriotism is ever at par, and in which double-entry Scriptures ever receive their full measure of devotion.

## G. THE PLACE OF THE IMMIGRANT

### 236. The Challenge of the Immigrant<sup>81</sup>

BY WALTER E. WEYL

When we seek to discover what is the exact influence of the immigrant upon his new environment, we are met with difficulties almost insurmountable. Social phenomena are difficult to isolate. The immigrant is not merely an immigrant. He is also a wage-earner, a city-dweller, perhaps, also an illiterate. Wage-earning, city-dwelling, and illiteracy are all contributing influences. Your immigrant is a citizen of a new factory, of the great industrial state, within, yet almost overshadowing the political state. Into each of our problems—wages and labor, illiteracy, crime, vice, insanity, pauperism, democracy—the immigrant enters.

There is in all the world no more difficult, no more utterly bewildering problem than this of the intermingling of races. Already twenty million immigrants have come to stay. To interpret this pouring of new, strange millions into the old, to trace its results upon the manners, the morals, the emotional and intellectual reactions of the Americans, is like searching out the yellow waters of the Missouri in the vast floods of the lower Mississippi. Our immigrating races are many, and they meet diverse kinds of native Americans on varying planes and at innumerable contact points. So complex is the resulting pattern, so multifarious are the threads interwoven into so many perplexing combinations, that we struggle in vain to unweave the weaving.

<sup>81</sup>Adapted from "New Americans," *Harper's Monthly Magazine*, CXXIX, 616-17, 620-22. Copyright, 1914.

When we compare the America of today with the America of half a century ago, certain differences stand out sharply. America today is far richer. It is also more stratified. Our social gamut has been widened. There are more vivid contrasts, more startling differences, in education and in the general chances of life. We are less rural and more urban, losing the virtues and the vices, the excellences and the stupidities of country life, and gaining those of the city. We are massing in our cities armies of the poor to take the places of country ne'er-do-wells. We are more sophisticated. We are more lax and less narrow. We have lost our early frugal simplicity, and have become extravagant. We have, in short, created a new type of the American, who lives in the city, who reads newspapers and even books, bathes frequently, travels occasionally; a man fluent intellectually and physically restless, ready but not profound, intent upon success, not without idealism, but somewhat disillusioned, pleasure-loving, hard-working, humorous. At the same time there grows a sense of a social maladjustment, a sense of failure in America to live up to expectations, and an intensifying desire to right a not clearly perceived wrong. There develops a vigorous, if somewhat vague and untrained, moral impulse based on social rather than individual ethics, unaesthetic, democratic, headlong.

Although this development might have come about in part at least without immigration, the process has been enormously accelerated by the arrival on our shores of millions of Europeans. These men came to make a living, and they made not only their own but other men's fortunes. They hastened the dissolution of old conditions; they undermined old standards by introducing new; their very traditions facilitated the growth of that traditionless quality of the American mind which hastened our material transformation.

Because of his position at the bottom of a stratified society the immigrant does not exert any large direct influence. His indirect influence, on the other hand, is increased rather than diminished by his position at the bottom of the structure. When he moves, all superincumbent groups must of necessity shift their positions. This indirect influence is manifold. The immigration of enormous numbers of unskilled "interchangeable" laborers, who can be moved about like pawns, standardizes our industries, facilitates the growth of stupendous business units, and generally promotes plasticity. The immigrant by his very readiness to be used speeds us up; he accelerates the whole *tempo* of our industrial life. He changes completely the "balance of power" in industry, politics, and social life generally. The feverish speed of our labor, which is so largely pathological, is an index of this. The arrival of ever fresh multitudes adds to the

difficulties of securing a democratic control of either industry or politics. The presence of the unskilled, unlettered immigrant excites the cupidity of men who wish to make money quickly and do not care how. It makes an essentially kind-hearted people callous. Why save the lives of "wops"? What does it matter if our industry kills a few thousands more or less, when, if we wish, we can get millions a year from inexhaustible Europe? Immigration acts to destroy our brakes. It keeps us, as a nation, transitional.

Of course this transitional quality was due partly to our virgin continent. There was always room in the West. Immigration, however, intensified and protracted the development. Each race had to fight for its place. Natives were displaced by Irish, who were displaced in turn by Germans, Russians, Italians, Portuguese, Greeks, Syrians. Whole trades were destroyed by one nation and conquered by another. The old homes of displaced nations were inhabited by new peoples; the old peoples were shoved up or down, but, in any case, out. Cities, factories, neighborhoods changed with startling rapidity. Connecticut schools, once attended by descendants of the Pilgrims, became overfilled with dark-eyed Italian lads and tow-headed Slavs. Protestant churches were stranded in Catholic or Jewish neighborhoods. America changed rapidly, feverishly. The rush and recklessness of our lives were increased by the mild, law-abiding people who came to us from abroad.

There was a time when all these qualities had their good features. So long as we had elbow room in the West, so long as we were young and growing, with a big continent to make our mistakes in, even recklessness was a virtue. But today America is no longer elastic; the road from bottom to top is not so short and not so unimpeded as it once was. We cannot any longer be sure that the immigrant will find his proper place in eastern mills or on western farms without injury to others—or to himself.

The time has passed when we believed that mere numbers was all. Today, despite the whole network of Americanizing agencies, we have teeming, polyglot slums, and the clash of race with race in sweatshop and factory, mine and lumber camp. We have a mixture of ideals, a confusion of standards, a conglomeration of clashing views on life. We, the many-nationed nation of America, bring the Puritan tradition, a trifle anæmic and thin, a little the worse for disuse. The immigrant brings a Babel of traditions, an all too plastic mind, a willingness to copy our virtues and our vices, to imitate us for better or for worse. All of which hampers and delays the formation of national consciousness.

From whatever point we view the new America, we cannot help

seeing how intimately the changes have been bound up with our immigration, especially that of recent years. The widening of the social gamut becomes more significant when we recall that with unrestricted immigration our poorest citizens are periodically recruited from the poor of the poorest countries of Europe. Our differences in education are sharply accentuated by our enormous development of university and high schools at one end, and by the increasing illiteracy of our immigrants at the other.

America today is in transition. We have moved rapidly from one industrial world to another, and this progress has been aided and stimulated by immigration. The psychological change, however, which should have kept pace with this industrial transformation, has been slower and less complete. It has been retarded by the very rapidity of our immigration. The immigrant is a challenge to our highest idealism, but the task of Americanizing the extra millions of newcomers has hindered progress in the task of democratizing America.

### 237. The Industrial Peasant<sup>32</sup>

BY H. G. WELLS

Will the reader please remember that I've been just a few weeks in the states altogether, and value my impressions at that! And will he, nevertheless, read of doubts that won't diminish. I doubt very much if America is going to assimilate all that she is taking in now; much more do I doubt that she will assimilate the still greater inflow of the coming years. I believe she is going to find infinite difficulties in that task. By "assimilate" I mean make intelligently co-operative citizens of these people. She will, I have no doubt whatever, impose upon them a bare use of the English language, and give them votes and certain patriotic persuasions, but I believe that if things go on as they are going the great mass of them will remain a very low class—will remain largely illiterate industrialized peasants. They are decent-minded peasant people, orderly, industrious people, rather dirty in their habits, and with a low standard of life. Wherever they accumulate in numbers they present to my eye a social phase far below the level of either England, France, north Italy, or Switzerland. And, frankly, I do not find the American nation has either in its schools—which are as backward in some States as they are forward in others—in its press, in its religious bodies or its general tone, any organized means or

<sup>32</sup>Adapted from *The Future in America*, pp. 142-47. Copyright by Harper & Bros., 1906.

effectual influences for raising these huge masses of humanity to the requirements of an ideal modern civilization. They are, to my mind, "biting off more than they can chew" in this matter.

Bear in mind always that this is just one questioning individual's impression. It seems to me that the immigrant arrives an artless, rather uncivilized, pious, goodhearted peasant, with a disposition towards submissive industry and rude effectual moral habits. America, it is alleged, makes a man of him. It seems to me that all too often she makes an infuriated toiler of him, tempts him with dollars and speeds him up with competition, hardens him, coarsens his manners, and, worst crime of all, lures and forces him to sell his children into toil. The home of the immigrant in America looks to me worse than the home he came from in Italy. It is just as dirty, it is far less simple and beautiful, the food is no more wholesome, the moral atmosphere far less wholesome; and as a consequence, the child of the immigrant is a worse man than his father.

I am fully aware of the generosity, the nobility of sentiment, which underlies the American objection to any hindrance to immigration. But either that general sentiment should be carried out to a logical completeness and gigantic and costly machinery organized to educate and civilize these people as they come in, or it should be chastened to resist the inflow to numbers assimilable under existing conditions. At present, if we disregard sentiment, if we deny the alleged need of gross flattery whenever one writes of America for Americans, and state the bare facts of the case, they amount to this: that America, in the urgent process of individualistic industrial development, in its feverish haste to get through with its material possibilities, is importing a large portion of the peasantry of central and eastern Europe, and converting it into a practically illiterate industrial proletariat. In doing this it is doing something that, however different in spirit, differs from the slave trade of its early history only in the narrower gap between employer and laborer. In the "colored" population America has already ten million descendants of unassimilated and perhaps unassimilable labor immigrants. These people are not only half civilized and ignorant, but they have infected the white population about them with a kindred ignorance. For there can be no doubt that if an Englishman or Scotchman of the year 1500 were to return to earth and seek his most retrograde and decivilized descendants, he would find them at last among the white and colored population south of Washington. I have a foreboding that in this mixed flood of workers that pours into America by the million today, in this

torrent of ignorance, against which that heroic being, the schoolmarm, battles at present all unaided by men, there is to be found the possibility of another dreadful separation of class and kind, a separation perhaps not so profound but far more universal. One sees the possibility of a rich industrial and mercantile aristocracy of western European origin, dominating a darker-haired, darker-eyed, uneducated proletariat from central and eastern Europe. The immigrants are being given votes, I know, but that does not free them, it only enslaves the country. The negroes were given votes.

These are all mitigations of the outlook, but still the dark shadow of disastrous possibility remains. The immigrant comes in to weaken and confuse the counsels of labor, to serve the purposes of corruption, to complicate any economic and social development, above all to retard enormously the development of that national consciousness and will on which the hope of the future depends.

### 238. The Responsiveness of Immigrants<sup>83</sup>

BY WILLIAM M. LEISERSON

From the day the immigrant lands in America he begins to have experiences that affect his mind and character vitally. Whatever we may mean by Americanism, these everyday experiences develop or retard his capacity to acquire it. Favorable economic experiences, steady work, rising standards, equality of rights and opportunity, property, prosperity, incline the immigrant favorably toward things American. Unfavorable experiences, unemployment, exploitation by labor agents, abuse by foremen and employers, poverty, and low standards will make him antagonistic to things American and cause him to idealize his old home. For he sees in the injustices which he often suffers at the hands of employers, trade-unions, government officials, labor agents, and boarding-house keepers, not the criminality of irresponsible individuals, but the acts of the American nation. He thinks these are the ways of American life which he must learn. It is the "American Game," a phrase commonly used by immigrants.

Industrial managers have recently discovered that human nature in working people, be they native or immigrant, men or women, skilled or unskilled, is very much the same. It responds normally to the treatment it gets in a perfectly reasonable way. The manager who imposes his will upon his workers and enforces his policies without consulting the wishes of his employees must expect the same reaction from immigrants as from native born. The industry that

<sup>83</sup>Adapted from *Adjusting Immigrant and Industry*, pp. 24-27. Copyright by Harper & Bros., 1924.



herds its immigrant workers like cattle makes no distinction among personalities, but treats its unskilled labor as a class of commodity to be paid for at a market price, finds such employees as balky, as actuated by class or herd spirit, as little interested or concerned in the enterprise of which they are a part as American workers are under the same treatment.

To a certain extent America has the kind of immigrant population it creates. To a certain extent clannishness, low standards of living, indifference to things American, and apparent loyalty to foreign lands, of which so many people complain, are the fruits of American policy or lack of policy in dealing with the immigrant industrial population. If industrial management has found that the native laborer responds to humane, considerate, and democratic treatment with an aroused interest in the business, with increased output and ambition, and with a spirit of co-operation and loyalty to the industrial establishment; then may it not be equally true that under similar treatment at the hands of immigration officials, courts, police, employment agencies, employers, trade-unions, social agencies, and other institutions of American community life, the immigrant will develop a similar spirit of co-operation and loyalty to the nation.

It behooves the nation, therefore, to study the experience of the immigrants whom we have permitted to land, in much the same way that enlightened employers are now studying the experiences in the shops of the people whom they employ. Under various names such employers have established what has been aptly described as a "Square Deal Department." Sometimes it is called an employment department, sometimes a welfare department or service department, and often an industrial relations department. But whatever the name, its purpose is to follow the careers of the workers in the plant and see to it that in hiring, in promotion, in wage payment, in treatment at the hands of subordinate officials, and in all the other experiences of a worker in the shop, he shall be protected against injustice. And since abuses are bound to creep in, provision is made for hearing complaints and giving redress where wrongs are proved.

Employers have found all this necessary, in order to build up a spirit of loyalty and co-operation among their employees. And it is hard to see how the nation can win the active and loyal co-operation of its immigrants without something of the same kind.

Whether we decide upon a policy of exclusion or not, fourteen million foreign-born are in our midst, and many of them are having experiences every day with labor agencies, employers, unions, public authorities, and immigrant agencies. These experiences may assimilate them into American industrial life, or may set them apart as out-

siders. So far as we have given any attention to the problem of immigration, we have centered it almost entirely on selection and exclusion, trusting that somehow, automatically, those who are admitted will be assimilated. Social science, however, has long ago taught us to reject the assumption of a benevolent providence that works automatically for the public weal through so-called natural laws. Deliberate organization has been found necessary to make the laws work to human ends and social well-being. If we wish to weave the immigrants into our American communities, we must provide the administrative organization that is capable of accomplishing such a purpose.

It appears that the automatic melting pot has failed to melt. For many years to come it is probable that immigration into the country will remain at a minimum, because of restrictive laws, and many immigrants will return to their native land.

The problem is becoming limited to reasonable proportions. We can see around it and we can work out the program, and the administrative machinery necessary to carry it into effect, with complete knowledge of the number, kind, and nature of the immigrants we have to deal with. We may go at the task of conscious and deliberate assimilation without fear that our efforts will be upset by a deluge of new immigrants.

### 239. Is Immigration a National Problem?<sup>34</sup>

BY CONSTANTINE M. PANUNZIO

To the development of this "public opinion of the world" of which Bryce speaks, every nation may well direct its best endeavor. World-society will need, first of all, to recognize that the forces which cause migration are as deep as life itself. A knowledge of past migratory movements leads to the conclusion that men do not pull up the roots of nativity, do not break the ties of home and kin, or, place in jeopardy all they are and all they own, even life itself, for the mere joy of doing so. Conditions such as we have already indicated expel them out of some countries and draw them toward others. These conditions operate upon men much as certain forces act upon the elements and drive a river in its course. When the sun pours down its intense rays upon a snow-covered mountain and the snows melt, waters gather into rivulets and streams and these, joining, are drawn by the power of gravitation toward the ocean. The river may be diverted in part, it may be dammed, but down pour the waters! Some

<sup>34</sup>Adapted from *The Passing of the Immigrants' America*. Unpublished, 1925.

of them will be held and accumulate behind dams, but the waters which follow will flow over the dams. At certain times of the year they will flow more than at others, one year more than a second, but still they will move; move at about the same rate of speed and approximately the same volume year in and year out, *unless* the generating conditions somehow alter.

So with the human stream! As long as certain conditions make their deposits of poverty and hunger upon the human body and mind, so long men may be expected to move. When the knowledge of new lands arises and casts its rays of hope upon them they will move. They will move over the precipices of shattered homes and broken ties. Some will be held behind dams, but many will run over them into those places which hold the promise of life. Need goads them on. The hope of satisfying that need draws them toward new worlds. Unless the conditions which generate the movement are mitigated or removed, the human stream will continue in its flow.

The next thing which world-society will need to recognize, sooner or later, is that if this stream is to be controlled at all, if the more or less antisocial conditions which generate it or to which it gives rise are to be altered or eliminated, it needs the best thought and effort of the civilized nations jointly. Just as the controlling of a river which runs through the territory of more than one country is an international problem, so is the control of the migration movement.

The United States stands at the very center of the present-day migration of peoples. But due in part to our economic position and in part to the acute racial and cultural problems which large immigration has forced upon this country, we have insisted that "immigration is a purely domestic problem," a phrase which has been so frequently repeated that we have actually come to believe it. As a nation, we accept the principle of peace, but we refuse to discuss with others this problem upon which peoples feel so keenly and upon which in part depends the peace of the world. Merely to bar the gates, to build further lines of defense or to attempt to bail out such migrants as are not wanted, desirable and expedient as it may be in the immediate sense, only serve to postpone the larger solution of the problem. If the United States, on the other hand, does join hands with other peoples, or does take constructive steps in that direction, it is not at all impossible that world-society may find a way out of some of the intricate problems arising from the migratory movement.

## H. THE QUALITY OF POPULATION

240. The Breeding of Men<sup>35</sup>

BY PLATO

"Then tell me, Glaucon, how is this result to be attained? For I know that you keep in your house both sporting dogs and a great number of game birds. I conjure you, therefore, to inform me whether you have paid any attention to the breeding of these animals."

"In what respect?"

"In the first place, though all are well bred, are there not some which are, or grow to be, superior to the rest?"

"There are."

"Do you then breed from all alike, or are you anxious to breed as far as possible from the best?"

"From the best."

"And if you were to pursue a different course, do you think that your breed of birds and dogs would degenerate very much?"

"I do."

"Good heavens! my dear friend," I exclaimed, "what very first-rate men our rulers ought to be, if the analogy holds with respect to the human race."

"Well, it certainly does."

"The best of both sexes ought to be brought together as often as possible, and the worst as seldom as possible, and the issue of the former unions ought to be reared, and that of the latter abandoned, if the flock is to attain first-rate excellence."

"You are perfectly right."

"Then we shall have to ordain certain festivals at which we shall bring together the brides and bridegrooms, and we must have sacrifices performed, and hymns composed by our poets in strains appropriate to the occasion; but the number of marriages we shall place under the control of the magistrates, in order that they may, as far as they can, keep the population at the same point, taking into consideration the effects of war and disease, and all such agents, that our city may, to the best of our power, be prevented from becoming either too great or too small."

<sup>35</sup>Adapted from *The Republic*, v. 459-60 (385 B.C.).

241. Derby Day and Social Reform<sup>36</sup>

BY MARTIN CONWAY

SIR: Which is wrong—the breeder of race horses or Mr. Lloyd-George? Would racing men do better with their animals if they adopted all the methods which Parliament has imposed upon us in recent years as the right way to improve the efficiency of the human race? How would it be if they swept up the whole equine progeny of the country, each generation as it came, and applied social reform to it—if they provided it with stables sanitarily inspected, if they caused all its units pass under the hands of certified trainers, if they pensioned off the old hacks, and provided bank holidays for the young, and, finally, if they left the whole question of the breeding of the beasts to chance? If English racing-men adopted our governmental system, is it not certain that English race horses would be beaten everywhere by horses bred by selection? Yet no one suggests any interference with the breeding of the human race. It is only royal marriages that have to be publicly approved. My suggestion that the same kind of interference should be applied to the marriages of peers has not exactly “caught on.” In their case the hereditary principle is accepted but not scientifically applied.

Not only does Parliament in its so-called wisdom fail to apply science to the production of hereditary legislators, but in all recent social legislation it has actually penalized the fitter classes in society in the interests of the less fit. The least fit in the country are the old people who have failed to provide any savings against their old age, and that large class of cheats who manage to pretend that they are in that case. An as yet uncounted number of millions sterling is now to be taken year after year from the fitter classes and doled out to these unfittest. No one can tell how many children that would have been born to these fitter parents will now have to go unborn. The old people used to be supported by their relations, who presumably inherited a like unfitness; those relatives, now indirectly endowed, can now produce more children in place of the fitter children whose entry into the world has been blocked. All so-called social legislation tends to act in the same way. The birth rate of the fitter is diminishing year by year and we calmly sit by and watch the consequent degeneration of our race with idle hands. We take the human rubbish that emerges and give it compulsory education, housing acts, inspection of all sorts and at all seasons, at the expense of the fitter class, and imagine that better results will ensue than if we left the whole business alone. Are we right? Or are the horse

<sup>36</sup>A letter published in the *London Times*, May 26, 1909.

breeders right? They have demonstrably improved the race of horses, and with great rapidity. The old system of "let alone" also improved, though more slowly, the race of men. It is only the modern system of penalizing the fit for the sake of the unfit that seems to be put in action simultaneously with, if it does not cause, and observed race-degeneration.

#### 242. Eugenics and the Social Utopia<sup>37</sup>

BY GEORGE P. MUDGE

With regard to man, it is now clear that what medicine, social reform, legislation, and philanthropy have failed to accomplish can be achieved by biology. Tell the student of genetics what type of nation we desire, within the limits of the characters which the nation already possesses, and confer upon him adequate powers, and he will evolve it. It is not too much to say that if he were instructed to evolve a "fit" nation—that is, one of self-restrained and self-supporting individuals—in the course of a few generations there would be neither workhouses, hospitals, unemployables, congenital criminals, or drunkards.

Students of eugenics will turn with interest to the concluding pages of Professor Bateson's book; there he deals with the sociological application of the science of genetics. We commend every advocate of social panaceas and of legislative interference with natural processes to read this part of the book. In a few well-chosen sentences he gives expression to the judgment of every biologist, alike of the present and the past, who has given to social problems adequate and unbiased thought. For nothing is more evident to the naturalist than that we cannot convert inherent vice into innate virtue, nor change leaden instincts into golden conduct, nor transform a "sow's ear into a silken purse," by any known social process. Our vast and costly schemes of free compulsory education, of county council scholarships and evening classes, which are among these social processes supposed to possess the magic virtue of transforming the world into a fairyland, may be a delusion and a danger. So, too, may be all the other well-intentioned but costly panaceas that harass, and tax, and eventually destroy the fit in order to attempt—for they can never achieve—the salvation of the unfit.

<sup>37</sup>Adapted from a review of Bateson's *Mendel's Principles of Heredity* in *The Eugenics Review*, I (1909), 137.

243. The Mendelian Basis of Selection<sup>88</sup>

BY J. H. OLDHAM

A powerful stimulus to the study of heredity has resulted from the discoveries of Mendel, who was a monk and later abbot in the Augustinian monastery of Brunn and who experimented with the growing of peas in the cloister garden. A brief description of these experiments will make clear their far-reaching influence on ideas about heredity. Mendel found that when he crossed, for example, a tall variety of pea with a dwarf, the hybrid generation resulting from the cross were not intermediate in size, nor some of them tall and some dwarf, but all were tall. When he isolated the generation of hybrids and allowed them to propagate, he obtained the following surprising result. One quarter of the offspring were tall and bred true, i.e., always produced tall. Another quarter were dwarf and likewise bred true, producing nothing but dwarfs. The remaining half, which were also tall, behaved like the first generation of hybrids and produced one quarter pure tall, one quarter pure dwarf, while half continued to breed in the proportions indicated. Experiments were made with other pairs of characters, and the same mode of inheritance was found to obtain.

What is the explanation of this remarkable mode of inheritance? It cannot be given accurately without entering into the details of the process of reproduction, for which there is no space here, but in substance it amounts to this. There is in each germ-cell a factor which produces, in the one case, tallness, and in the other dwarfness. When the two varieties are crossed, the offspring possess both factors. The results show, however, that when both factors are present one—in this case dwarfness—is latent or as it is called “recessive,” and the other—in this case tallness—is dominant. The hybrids, though possessing both factors, were, in Mendel’s experiment, as we have seen, all tall. When such hybrids are allowed to fertilize themselves, on the average of chances—the seeds yielded in Mendel’s experiments, it must be remembered, ran into thousands—roughly one half of the offspring will in the sorting-out process have two different factors (tall and dwarf), while the other half will have two factors of the same kind (both tall or both dwarf). Among the latter, again, on the average of chances, roughly one half—a quarter of the whole generation—will have two tall factors, and the other half two dwarf factors. Both these latter classes are pure breeds—they will produce, in the one case, nothing but tall, and in the other, noth-

<sup>88</sup>Adapted from *Christianity and the Race Problem*, pp. 48-50. Published by George H. Doran & Co., 1924.

ing but dwarfs. The alternative factor has been eliminated and can never reappear in inheritance unless reintroduced by crossing.

#### 244. Immigration and Eugenics<sup>89</sup>

BY WALTER E. WEYL

We must not forget that these men and women who file through the narrow gates at Ellis Island, hopeful, confused, with bundles of misconceptions as heavy as the great sacks upon their backs—we must not forget that these simple, rough-handed people are the ancestors of our descendants, the fathers and mothers of our children.

So it has been from the beginning. For a century a swelling human stream has poured across the ocean, fleeing from poverty in Europe to a chance in America. One race after another has knocked at our doors, been given admittance, has married us and begot our children. We could not have told by looking at them whether they were to be good or bad progenitors, for racially the cabin is not above the steerage, and dirt, like poverty and ignorance, is but skin deep. A few hours and the stain of travel has left the immigrant's cheek; a few years and he loses the odor of alien soils; a generation or two, and those outlanders are irrevocably our race, our nation, our stock.

That stock a little over a century ago was almost pure British. Despite the presence of Germans, Dutch, French, and Negroes, the American was essentially an Englishman once removed, an Englishman stuffed with English traditions, prejudices, and stubbornnesses, reading English books, speaking English dialects, practicing English law and English evasions of law, and hating England with a truly English hatred. Even after immigration poured in upon us, the English stock was strong enough to impress upon the immigrating races its language, laws, and customs. Nevertheless, the incoming millions profoundly altered our racial structure. Today over thirty-two million Americans are either foreign-born or of foreign parentage. America has become the most composite of nations.

We cannot help seeing that such a vast transfusion of blood must powerfully affect the character of the American. What the influence is to be, however, whether for better or for worse, is a question most baffling. Our optimists conceive the future American the child of this infinite intermarrying, as a glorified, synthetic person, replete with the best qualities of all the component races. He is to combine the sturdiness of the Bulgarian peasant, the poetry of the Pole, the vivid artistic perception of the Italian, the Jew's in-

<sup>89</sup>Adapted from "New Americans," *Harper's Monthly Magazine*, CXXIX, 615-16. Copyright, 1914.



tensity, the German's thoroughness, the Irishman's *verve*, the tenacity of the Englishman, with the initiative and versatility of the American. The pessimist, on the other hand, fears the worst. America, he believes, is committing the unpardonable sin; is contracting a *mésalliance*, grotesque and gigantic. We are diluting our blood with the blood of lesser breeds. We are suffering adulteration. The stamp upon the coin—the flag, the language, the national sense—remains, but the silver is replaced by lead.

All of which is singularly unconvincing. In our own families, the children do not always inherit the best qualities of father and mother, and we have no assurance that the children of mixed races have this selective gift and rise superior to their parent stocks. Nor do we know that they fall below. We hear much about "pure" races and "mongrel" races. But is there in all the world a pure race? The Jew, once supposed to be of Levitical pureness, is now known to be racially unorthodox. The Englishman is not pure Anglo-Saxon, the German is not Teutonic, the Russian is not Slav. To be mongrel may be a virtue or a vice. We do not know. The problem is too subtle, too elusive, and we have no approved receipts in this vast eugenic kitchen. Intermarrying will go on whether we like it or loathe it, for love laughs at racial barriers and the maidens of one nation look fair to the youth of another. Let the kettle boil, and let us hope for the best.

#### 245. The Rationale of Eugenics<sup>40</sup>

BY JAMES A. FIELD

A review of what has been accomplished in the field of eugenics during the last decade clearly reveals that most of the solid writing and of the really scientific and useful work has come from the biologists. The competent student of economic and social questions has rendered little aid. Perhaps until now his abstention from the discussion has been wise. Experts were not needed to repeat the memorable suggestion that a civilization which should acquire control over the qualities of the human breed might thereby control human welfare also. That suggestion, vital in itself, has been readily enough kept alive by the conviction of the inexpert that anything is the better for tinkering; meanwhile, the biologists have been coming more and more to the conclusion that whoever can determine marriage selection in the present will determine, within large limits, the physique and intellect of the future, and will become in a new sense the maker of history. But in proportion as the biologist

<sup>40</sup>Adapted from "The Progress of Eugenics," *Quarterly Journal of Economics*, XXVI, 61-67. Copyright, 1911.

foreshadows the physical possibilities of heredity and selection, the want grows for wisdom with which to utilize them. What sort of history, then, is best worth the making? What sort of history does it lie within our power to bring to pass? Is this momentous marriage selection, from motives half rational, half mystical, in their veneration of the continuance of life, to prevail in spite of popular ignorance and passion? Or, leaving this question of practicability for experience to decide, is it after all sensible to burden the present generation with concern for generations of the future whose needs we can hardly foretell; and, in subservience to the science of the day, to repudiate instinct older than all human experience by "falling in love intelligently"? We have need of a social philosophy to tell us how far eugenic reforms are reasonable and worth while.

Even in its broadly biological aspects eugenics is involved in the long-standing demarkation dispute over the respective jurisdictions of man's artificial control and the unmodified course of natural evolution. Less than twenty years ago one of the greatest of biologists, writing on this very subject, declared in no uncertain terms his disbelief in the practice of artificial selection as a means of human betterment. Knowledge has grown, no doubt, since *Evolution and Ethics* was written, and new discoveries have gone far to discredit Huxley's belittlement of the potency of human selective agencies. The details of the biological mechanism by which changes are effected have become far better known. More dubious is the question how much advance has been made toward a wise guidance of such agencies. For Huxley, there was "no hope that mere human beings will ever possess enough intelligence to select the fittest." Possibly the social consciousness of a people is an abler guide than he recognized. Perhaps, although the fittest state of society is beyond our perception, we may achieve by means of eugenic selection a succession of experimental changes which seem to us for the better. But still the order of nature decrees that eugenic experiments made in haste are repented at leisure. The eugenicist who modifies the race type in the present predetermines for better or worse the mental and physical endowment of distant posterity. In the final analysis, eugenics, like other attempts at lasting reform, must move with the stream of processes which preceded human intervention and limit it still. While in such a stream a steered course may well be better than mere drifting, the eugenicist in action must always proceed with the caution of one who reckons with the inscrutable.

If the task of eugenics were to establish a new aristocracy of inborn ability, the prospect of success would be less obscure. The historical institutions of ruling castes and hereditary nobilities have

shown that the special capacity which in one generation after another can seize upon and retain for itself special opportunity has long been competent to raise the family line of its possessors above their less favored fellowmen. Now modern biology, from a new standpoint and with new significance, reasserts the privilege of birth. It is not surprising, therefore, that writers arguing for the eugenic selection which shall perpetuate and intensify exceptional ability, have virtually proposed an aristocratic social order of a novel kind. But every preferment of the abler members of a community is tantamount to a degradation of the less gifted. To create an exclusive caste founded on eugenic superiority would be to intensify the unhappiness of such persons as are already inferior. The principle of the survival of the fittest normally involves wholesale sacrifices of the unfit; but such unmitigated rigor of selection does not commend itself as a humane method of social amelioration. Nor is the temper of the times favorable to aristocracies of any sort. It calls for a general betterment of the whole mass of mankind.

Can eugenics bring to pass this universal improvement? Probably many a devoted follower of the cause has assumed that if its benefits can be realized by any they might be extended to all. Such was the vision of Greg: "Every damaged and inferior temperament might be eliminated, and every special and superior one be selected and enthroned, till the human race, both in its manhood and its womanhood, became one glorious fellowship of saints, sages, and athletes; till we were all Blondins, all Shakespeares, Pericles, Socrates, Columbuses, and Fenelons." But to hold such opinions is to ignore the relativity of success and to miss the very meaning of eminence. In a world of Blondins a tightrope walker would command no profit or applause. A world of great teachers would lack pupils to be taught. The unknown continent which everyone had found could hardly immortalize its multitudinous discoverers. Nor could any one master-dramatist make mankind his audience so long as all clamored with equal right for hearing. Unfortunately, too often we overlook, in our projects for reform, the comparative character of individual attainments and individual happiness. We bemoan the rarity of greatness, forgetting how largely the exceptional individuals whom we call great are great because they are exceptional. If, then we are to elevate the whole community, we must work with a standard free from the element of invidiousness; for no social reform can achieve a general improvement of men's positions relative to the positions of their fellow-men.

Apparently, then eugenic selection is concerned not with the conditions of eminence but with the conditions of efficiency. It must

work for the internal efficiency which we roughly call sanity and a good constitution, and for the external efficiency which enables an individual, regardless of the comparative efficiency of other individuals, to make steady progress in forcing his non-human surroundings into conformity with his needs. Doubtless the distinctions here applied are definite. For instance, the personal advantages of health and strength are diminished if equal physical vigor becomes the possession of all. Unusual prowess in exploiting external physical resources has notoriously been among the most potent causes of inequality. Yet, in a civilization which already ministers by palliatives to ill health, and in which the distributed burden of caring for the incompetent almost certainly drags more heavily on those who are stronger than would the potential competition which incompetency now holds in check—in such a civilization, the promise of gain to come from the eradication of feeble-mindedness, or insanity or the proneness to consumption would outweigh any new stress of circumstance which it would involve. And with this alleviation of the miseries from within might come augmented economic efficiency, not of the few but of the many; a general and continuous advance in those characteristics of body and mind which make for man's larger control of heretofore reluctant gifts of nature.

If this sketching of the possibilities is even roughly true, it calls again for the verdict of the biologist. But it is by no means only the biologist whose judgment is required. Again and again, in the light of biological discoveries a more adequate answer must be sought to that crucial question, the significance of which the biologists have mostly failed to comprehend: Granted that by rational marriage selection certain recombinations of human characteristics can be effected at will, what eugenic policy promises the maximum increase of human welfare? To aid in answering this question the economist is needed. For health and strength and intellect work out the good or ill fortunes of their possessors according to the ways of economic civilization, and not by process of brute struggle for existence. Eugenics is not mere biology. The problems of eugenics are problems of human society.

## X

### THE PROBLEMS OF ECONOMIC INSECURITY

That "fortune is fickle," that "life is insecure," and that "no one knows what a day may bring forth," are among the oldest and the best attested generalizations from human experience. The problems associated with insufficiency of food, accident, sickness, and old age—with sowing where one never reaps—we have, quite proverbially, always had with us. But under modern industrial conditions, in a developing system, such questions are so closely related to the whole complex of life that it is necessary for us, collectively as well as individually, to "take thought for the morrow."

The machine system, production on a large scale, pecuniary competition, dependence on distant and future markets, the rapid development of technique, the delicate organization of the "industrial machine" and the scheme of prices, the currents which carry the shock of disturbance throughout the system, the alternation of business optimism and pessimism, the violent rhythm of the economic cycle, the onward sweep into an unknown future—all of these things prevent us from adequately guarding against what the morrow has in store. The insecurity of capital is attested by failures to find purchasers for goods, by falling dividends, by business failures, by the sudden disappearance of capital values. But these things were discussed in connection with the economic cycle. It is the insecurity of the laborer which concerns us here.

To grasp the problem as a whole we must appreciate the peculiar position of the laborer in the machine system. This can best come from contrasting, say, the villein on the manor with the modern industrial "hand." Custom granted to the former the use of the same land year after year, exacted from him a fixed rent, forbade his dispossession, and made his position permanent. He and the land formed an inseparable industrial unit: there was always something for him to work with; what he produced he had. The problem of want might indeed confront him; but it was associated with a raid of an alien feudal lord upon his manor or the failure of the elements to grant a full yield from the earth. The group to which he belonged was established upon a "personal" basis, and was possessed of a spirit of solidarity. He possessed as long as they possessed.

In modern industrial society, on the contrary, there is no permanent association of the laborer with the instruments of production. He secures equipment with which to work by means of a "contract," expressed in pecuniary terms, and running for a stipulated period. He owns no equities in the property with which he works. When the contract expires, it need not be renewed. No other property owner is compelled to make a new contract with him. The bait of higher wages, drawing him from place to place, is likely to prevent his identification with a group animated by a spirit of solidarity. He has the tremendous advantages which come from freedom of movement and the chance to take advantage of the best opportunity which presents itself. He has the disadvantages which attend short-time contracts. These last are outgrowths of two sets of conditions; first, those affecting employment, causing it to increase or decrease, and to pay higher or lower wages; and second, his own industrial powers, which may be partially impaired or even totally collapse, from accident or sickness to which he is exposed. When they are gone, as they will eventually be in old age, he has no respectable surety of support.

This larger problem involves several minor problems, very closely connected, and yet possessed each of its peculiar aspects. Unemployment, perhaps the most difficult of these, is closely associated with the short-time contract. With changing business conditions, the employer, who is dependent upon pecuniary returns, may find it impossible to renew old contracts. Changes in technique, the disappearance of his market, and a thousand other causes may contribute to this result. It is rendered more serious by the ebb and flow in the demand for labor, which is closely associated with the rhythm of the business cycle. Unfortunately the supply of labor, unlike currency, is not possessed of the necessary elasticity to meet the changing conditions. The risks are too unpredictable for insurance to become more than a palliative. The solution of the larger problem is, in general, associated with that of the other problems of the cycle.

Industrial accidents occur because we have not yet learned absolutely to control the dangerous natural forces which we have pent up in our machines, and because we have not learned properly and exactly to adjust our movements to these huge engines of production—and destruction. In general their causes are resident in the system as a whole and cannot be directly imputed to "individuals." Unfortunately, however, their consequences may be quite concentrated. They are no respecters of persons, and are as likely as not to rob of their productive abilities laborers who have families dependent upon them. The problem involves: first, a prevention of industrial accidents, attended as they are with great losses of productive power; and second, the devising of some legal measure to compensate the injured and innocent party for his loss.

Sickness and old age are serious social problems. The former, through the absence of the laborer and the breaks in the productive process which his absence entails, piles up huge economic costs. Unless assistance be rendered at the time of stress, sickness may lead to a great loss of productive power and in many cases to permanent dependence. Provision for old age, under short-time labor contracts, is difficult and rarely is adequate. But, even if individually made, there is grave doubt whether the saving involved does not deplete the income to such an extent as seriously to cripple efficiency. At any rate the feeling of insecurity is likely to hinder the laborer's performance of his work. A scheme of insurance should be able greatly to reduce the wastes incident to both of these universal occurrences. What is needed is a long-time calculation, based on the whole life of the laborer, not a series of short-time calculations such as labor-contracts make necessary.

Finally there is the problem of insecurity due to wages too low to yield a decent standard of living. There is just now a disposition to try to solve this problem by the establishment of "minimum-wage scales." The problem is one of the most difficult in the field of economics. If the "natural," or competitive, wage is to be set aside as too low, what standard can be found to determine the proper wage? Will there not be evasion of laws prescribing "artificial" wages? To prevent this, will not the government be compelled to regulate prices, service, hiring and discharge, accounting systems, discipline, etc? Will not the experience of the government in attempting to prevent rebates be duplicated? What will be the influence of regulation on the investment of capital in the industries involved? To what lengths, and to the adoption of what new social schemes, will this policy carry us? Can the project be made to succeed without a supplementary control of the supply of labor? Would it not be better to try to solve the question through an attempt to decrease the numbers of the lower class, and through technical education? It seems, from the study which we made above of "artificial price determination," that prices seriously at variance with competitive prices cannot be enforced. Such an attempt would have far greater chances of success if accompanied by efforts to restrict the supply or increase the efficiency of labor. A conscious "control of births," a restriction of immigration, vocational guidance, and compulsory technical training should do much to make the minimum

wage effective. If we can wait for slowly changing conditions to produce results, and if we do not force a single proposal to carry the whole burden of raising low wages, eventually we should expect success.

The problem of economic insecurity occurs in its most aggravating form among unskilled and unorganized laborers. State aid will help them; but it will not free them from the necessity of working out their own salvation. Skilled and organized laborers should be able to solve their own problem through their effective device of collective bargaining.

## A. INSECURITY UNDER MODERN INDUSTRIALISM

### 246. Competition and Personal Security<sup>1</sup>

BY THOMAS KIRKUP

Perhaps the most painful feature of the workingman's lot is the insecurity of his position. During the long periods of depression work is scarce and precarious, and he must go where he has a chance of finding it. At all times the changes in the labor market are so great and unexpected that he can hardly calculate upon a settled existence. Continual fluctuations of trade force him to move. He has no control, or only a very partial control, over the economic and social conditions under which he must work. A settled home, a piece of land for a garden, a fixed outlook for his family, and a reasonable prospect of a happy and comfortable old age, untroubled by the horror of losing such savings as he may have made, through want of employment, and of ending his days in a workhouse—these for a large proportion of the workmen in the industrial centers are unattainable blessings. Yet they are unquestionably such as every decent and honorable working man has a right to expect.

This condition of insecurity under the existing system of competition, however, is by no means a special evil of the workman. It is the common lot of all who are involved in it, and, not the least, of the capitalists who are exposed to ruin by it. The conditions of industry are not only beyond the control of the workmen who serve under the capitalistic system. They are beyond the effective control also of the individual capitalists whose function it is to direct them, so that competition frequently degenerates into disorder, and into an exterminating war carried on with all the weapons permitted by the law, and with many not permitted by law—underselling, adulteration, fraud, bribery, oppression of labor. In times when industry is expanding, this may not be so apparent, but when trade becomes dull, stationary, or retrograde, the struggle grows painful, and to many of the competitors disastrous. In this struggle many

<sup>1</sup>Adapted from *An Inquiry into Socialism*, pp. 68-74. Copyright by Longmans, Green & Co., 1907.

capitalists are ruined, dragging down with them numbers of workmen who have no control of their economic position, and are helpless under the calamity.

This insecurity is essentially connected with the speculative character of the competitive business. As production is so often carried on for a market of unknown and incalculable extent, and for prices which, even if obtained, cannot be accurately foreseen, uncertainty must very greatly prevail, and the speculative spirit must powerfully affect the general course of business. This spirit of speculation culminates in the great Exchanges, disturbs legitimate trade, and not infrequently throws into insecurity, panic, and disorder the industrial operations of the country, sometimes of the civilized world.

In the history of the capitalistic system nothing is so extraordinary as the rapid development of mechanical power. It is only natural, when the prizes of success are so enormous and the penalties of failure so severe, that human ingenuity and energy should be wonderfully quickened. This development of industrial power still continues in every country where modern methods have been introduced. But there is a serious evil connected with it. This is the fact that labor, which is one of the greatest factors of production, is thrown out of employment through this excessive development of machinery. But as the laborers form the bulk of the population and should be by far the largest purchasers, the very force which tends to over-fill the markets tends also to restrict the purchasing power of the majority of the community. Thus industry under the competitive system runs and must run in a vicious circle.

All the phenomena of competitive anarchy find their worst development in the great commercial and industrial crises which continually recur, and now threaten to become not only universal but chronic. It is unnecessary to recount the familiar phenomena of an industrial crisis. We have a multitude of competing capitalists of every class with a market which may be as wide as the world. Each has a vague prospect of vast possibilities of gain before him, and when trade is favorable each is anxious to make the most of his opportunities. Machinery is improved, establishments are enlarged and better organized, production grows lively, vigorous, and rapid in an ever increasing ratio till it becomes an impetuous and feverish rush. Before long the over-filled markets are unable to take off the enormous supply. Goods will not sell. Embarrassments set in, followed by forced sales at any price. Inflation and over-confidence give place to insecurity and panic. Then comes the crash resulting in ruin to thousands of capitalists and in widespread depression and stagnation. Hundreds of thousands of workmen are thrown



out of employment. All the classes that depend on the operations of capital, that is to say the entire society, suffer more or less from the prevailing depression. And we have the fearful spectacle of starving multitudes in the midst of overflowing markets and store-houses; superabundant food and clothing and all the other means of subsistence, comfort and culture, but inaccessible even to those who are most anxious to work; vast numbers of men ruined through the very effectiveness and perfection of the productive forces which they have themselves created. The workers starve because they have produced too much and too well; through the action of mechanical forces which have been created, but are not duly controlled by man.

So long as these productive forces are wielded in such a chaotic way by private capitalists competing for a world-market, without adequate knowledge of its needs, without arrangement with each other, without system and prevision, so long must such disorder last. The capitalist, too, suffers fearfully, but it is the workman that must usually bear the heaviest burden of privation and wretchedness.

#### 247. Economic Insecurity and Insurance<sup>2</sup>

BY W. F. WILLOUGHBY

In a broad sense all forms of insurance may be described as social insurance, since social ends are attained by them. As the term is now employed, however, it is usually restricted to those forms of insurance having to do with contingencies affecting individuals as opposed to those affecting property. It looks to the conferring of pecuniary benefits in all those cases where for any reason the capacity of the individual to provide for the support of himself and those dependent upon him is lessened or destroyed. Stated in another way, social insurance sets to itself the task of meeting the problem of the economic insecurity of labor.

What are the contingencies causing this economic insecurity against which provision must be made in some way? On examination we find that a man's ability to support himself, and to make due provision for those dependent upon him, is lessened, or cut off: (1) by his meeting with an accident incapacitating him, temporarily or permanently, partially or completely, from labor; (2) by his falling sick; (3) by his becoming permanently disabled for labor as a result of old age or failing powers; (4) by his death, leaving

<sup>2</sup>Adapted from "The Problem of Social Insurance: An Analysis," *American Labor Legislation Review*, III (1913), 159-60.

a widow, children, or others without adequate means for their support; and (5) by his inability to secure remunerative work.

To meet each of these contingencies resort has been had to the principles of insurance. Social insurance is thus a term that has been coined to serve as a collective designation of: (1) Insurance against accidents; (2) insurance against sickness; (3) insurance against old age and invalidity; (4) insurance against death, or, as it is more usually called, life insurance; and (5) insurance against unemployment.

Could a just and workable plan of insurance covering these several points be worked out, the problem of the economic security of labor, one of the greatest with which society now has to deal, would be solved. Is there any social problem more fundamental or more deserving of unremitting effort?

Our first analysis thus resolves the problem of social insurance into these five branches. This division is made not merely in order to bring out the content or orbit of social insurance. It is fundamental, since each of these branches of insurance has its own special features and problems. Insurance, notwithstanding the simplicity of the ideas underlying it as a device, is an exceedingly technical science. Particularly is this true where the human factor has to be dealt with. Still more is it complicated where a departure is contemplated from the system of purely voluntary, unencouraged, unaided use of the device on the part of individuals, and resort is proposed to the force of social encouragement, control and compulsion. Each of these five branches of social insurance thus has its own special problems and considerations; they are united only in respect to their ultimate social end.

These special problems can, in each case, be distinguished, for purposes of consideration, into three distinct classes: (*a*) the social, (*b*) the administrative, and (*c*) the technical. Of these the first is the most fundamental. Under this head falls the great question of upon whom shall fall the burden of making the contributions required for the support of the system. No real progress can be made until we, the public, have reached a conclusion regarding the problem of justice that is here involved. As a matter purely of right, of justice, of bringing about the widest possible distribution of welfare, how shall the financial burden entailed by the system be distributed? In seeking to reach an answer to this question we find that the choice lies between placing the burden in whole or in part upon either: (1) the beneficiary, or workman, (2) the employer, (3) the industry in which the workman is employed, or (4) the state.

## B. UNEMPLOYMENT

248. Character and Types of Unemployment<sup>3</sup>

BY SIR WILLIAM BEVERIDGE

To grasp the problem of unemployment and free ourselves from popular, but erroneous notions on the subject, we must first get a clear impression of the nature of the industrial system.

The popular conception is of industry as rigidly limited—a sphere of cast iron in which men struggle for living room; in which the greater the room taken by any one man the less must there be for others; in which the greater the number of men the worse must be the case for all. The true conception is a sphere made of elastic material, capable of expansion and being in fact continually forced to expand by the struggling of those within. Each individual appears to be and, no doubt, to some extent is, pressing upon the room of his neighbors; the whole mass presses upward upon the limits within which it is for the moment confined; the result of a particularly violent struggle of one man for the room of others may be to enlarge appreciably the room for all.

This expansion of industry cannot readily be made visible, and is nowhere recorded in direct and comprehensive figures. It is and must always remain something of a mystery. It does not take place evenly. It is perhaps not a thing to be counted on forever. The sphere may at last lose its elasticity and cease to respond further to the increasing pressure from within. That, if it ever happens, will mean over-population, a diminishing return to labor, a falling standard of life, and, unless the growth of numbers be arrested, a gradual but certain return to barbarism for the immense majority of people. For the present it is sufficient to say that the time has not come; it is not within sight; it can barely be imagined. For the present the sphere of industry retains its elasticity. It expands, not indeed steadily, but still sufficiently for the people: It absorbs the generations as they come. It yields each fresh man on the whole more living and working room than fell to the lot of those who went before.

Yet with all this comes the perpetual cry of some who find no living and working room at all. The number of the unemployed never falls to zero. Many who recognize the indisputable facts of the expansion of industry and the rising standard of life are prone to deny directly or implicitly the existence of an unemployment

<sup>3</sup>Adapted from *Unemployment: A Problem of Industry*, pp. 11-14. Copyright by Longmans, Green & Co., 1908.

problem at all. If there are not too many workmen in a country, every man who wants to work must be able to obtain it. If any man fails to find room while all around him fresh room is opening up, he must be either unfit or unwilling to do so. He must be "unemployable," incompetent, lazy, sick, or infirm.

Yet unemployment is not to be explained away as the idleness of the unemployable. As little can it be treated as a collection of accidents to individual working people, or individual firms. It is too widespread and too enduring for that. While the final absorption of the growing population in the growing industry is accepted as being for the country still happily the rule, it is no less necessary to admit the existence of facts modifying the completeness of this absorption at certain times and places—indeed, at all times and places. There is no general want of adjustment between the increase of the people and the expansion of industry, between the rate of supply of fresh labor and the normal growth of the demand for it. There are specific imperfections of adjustment which are the causes of unemployment.

One of these has long been recognized. While industry, as a whole, grows, specific trades may decay, or change in methods and organization. The men who have learned to live by those trades may find their peculiar and hard-won skill a drug on the market and themselves permanently displaced from their chosen occupations, while lacking both the youth and the knowledge to make their way in new occupations.

A second type of maladjustment between the demand for and the supply of labor is found in actual fluctuations in industrial activity. Many trades, perhaps most trades, pass regularly each year through an alternation of busy and slack seasons, determined by climate or social habits, or a combination of both. Building is slack in winter and busy in spring and summer. Printers find least to do in the August holidays and most in the season just before Christmas.

Behind and apart from these seasonal vicissitudes of special trades, and affecting, though in various degrees, nearly all trades at about the same time, is a cyclical fluctuation in which periods of general depression alternate at regular intervals with periods of feverish activity. At such times of depression the industrial system does appear to suffer a temporary loss of elasticity; it fails for a while to keep pace with the steady growth of population; it gives—in a phase of falling wages and lowered standards—an object lesson of what might be expected if the supply of labor should ever come permanently to outstrip the demand.

These two elements in the problem of unemployment have long been familiar. A third, apparently far more important than either of the occasional transformations of industrial structure or the periodic fluctuations of industrial activity, is only just beginning to receive attention. This is the requirement in each trade of reserves of labor to meet the fluctuations of work incidental even to years of prosperity. The men forming these reserves are constantly passing in and out of employment. They tend, moreover, to be always more numerous than can find employment together at any one time. This tendency springs directly from one of the fundamental facts of industry—the dissipation of the demand for labor in each trade between many separate employers and centers of employment. Its result may be described as the normal glutting of the labor market. The counterpart of such glutting is the idleness at every moment of some or others of those engaged.

The three factors just mentioned—changes of industrial structure, fluctuations of industrial activity, and the reserve of labor represent, not indeed all, but at least the principal economic factors in unemployment.

#### 249. The Need for Unemployment<sup>1</sup>

BY JOHN MAURICE CLARK

One fact needs to be faced which is too often slighted, both by business men and economic theorists, namely, the fact that mobilization itself implies and requires some unemployment. It calls for an "industrial reserve army," both of capital and of labor, though not to the extent nor for the reasons which the Marxian theory supposes. To the extent that this is really inevitable and essential to industry, it is not a waste, though the question still remains how to reduce the loss of power to the smallest possible proportions. Therefore we must raise the question how much unemployment is really necessary for industry; not because there is any immediate danger of having too little unemployment, but because this question will help toward setting a reasonable goal and toward determining who benefits by unemployment and who should bear the burden of irreducible remainder.

The need for unemployment focuses around nine points, as follows:

1. The need of industries to select suitable applicants from among the candidates who present themselves, and to reject the unsuitable.

<sup>1</sup>Adapted from *Studies in the Economics of Overhead Costs*, pp. 366-67. Copyright by the University of Chicago, 1923.

2. The need of workers to explore the market in order to find the place in which they can be most useful and most happy.

3. The need of being able to launch new enterprises without actually pulling away too many men who are already working in established industries.

4. The need—if it really exists—of the fear of losing the job as an incentive to make labor put forth as much effort as industry has a right to demand.

5. The need—if it exists—of strikes, to protect labor's legitimate interests, or of a replacement force in case of strikes, sufficient to prevent the community from being at the mercy of organized labor, but not sufficient to put labor at the mercy of the cut-throat competition of unemployed workers who must take anything they can get. Aside from a very few strikes, these needs are probably not real; certainly the community needs no unemployed army of potential strike-breakers to protect it from organized labor, though it might be worth something to have a supply of employed workers, qualified for the essential jobs in every trade, but employed in other trades.

6. The need of having this reserve of unused trade knowledge implies that workers must have moved about from trade to trade in the process of acquiring it, and this involves some necessary unemployment, though possibly no more than is already implied in laborers finding the places to which they are best fitted.

7. The need of a supply of labor to handle seasonal peaks and other incidental irregularities in particular industries. This implies mobilization, and mobilization implies some unemployment, while there is a further residuum due to the fact that the various seasonal peaks cannot be perfectly dovetailed together. Here one must distinguish carefully between the need of some unemployment and the need of throwing upon labor the burden of financing it. The two are separate questions.

8. The need of a reserve to handle the peak of the business cycle. Here again, what industry feels as a need is to have this reserve without paying for its upkeep during the idle times. To have the reserve and pay for it would hardly be felt as a boon.

9. The need of throwing upon labor a part, at least, of the burden of dovetailing together seasonal occupations and finding work in dull times, (a) to stimulate laborers to do their best in this direction and to make some concessions in order to utilize their own idle overhead, and (b) to relieve industry of a financial burden which it could not easily bear, and of the necessity of regularizing employment to a greater extent than it now finds practicable.

250. Measuring Unemployment<sup>5</sup>

BY MORRIS L. COOKE

Only as we study the everyday and all-the-year-around variety of unemployment, and learn to cope with it within the individual manufacturing plant, will we be able to prevent or at least to minimize the effects of these great waves of unemployment which we have come to look upon as necessarily associated with periods of business depressions.

Assuming that the proper length of the work-day has been determined, employment for the individual or the group or the community as a whole is measured by the amount of time actually occupied in productive work. The unemployment factor then is the percentage by which this falls short of the theoretical maximum.

To bring this problem of unemployment within the range of our individual industrial hearth-stones, I have divided its treatment into two parts: (a) unemployment within employment—being the unemployment of men and women who, technically at least, have jobs—and (b) unemployment without employment.

My own impression is that the total of unemployment without employment, that is, the unemployment of what may be called "jobless men," represents a relatively small percentage of the total. If this assumption proves even relatively near the truth, it will pay us to devote our most painstaking attention to the unemployment of men and women who can, very broadly speaking, be said to have jobs.

The moment we undertake scientific analysis of our own contribution to the total distress we discover that we need some formula or expression or device by which we can measure the amount of unemployed time of those who have jobs. Such a mechanism would enable us to rate the performance of individual employers in this respect, to evaluate the results achieved in different industries in providing steady work and even to contrast the experience of different communities.

In applying this test we should be able to determine the record made in any given period of time—a day, a week, a month, a season or a year. The formula should be so exact as to include lay-offs of a few moments or of a few hours as well as of days and of weeks. Such a measure as the one proposed should be so broadly conceived as to be applicable to a given room or department of a single industrial establishment, or to the plant as a whole, to regional divisions of an industry or the industry throughout the nation, to geographical

<sup>5</sup>Adapted from "A Measuring Stick for Unemployment," *American Labor Legislation Review*, XI (1921), 170-72.

areas including all industries, and to the nation at large. But to be broadly useful the method must be one that is readily simplified to meet the conditions found in most small concerns or expanded to meet the necessities of our more highly organized industrial establishments.

For the lack of a more descriptive title I suggest we call this factor—this measuring stick for unemployment—the “Unemployment Score.”

The “Unemployment Score” is the percentage by which the actual employment given an individual or group compares to the theoretical possible maximum.

But the usefulness of such a score will be limited unless it is arrived at as the summary of factors measuring contributory causes, each in turn built up in like manner. The process should be capable of being carried to any useful degree of subdivision.

There is space here for only a broad illustration. Assume that the possible theoretical total of working hours for those engaged in a given building last week was 1,000 units of productive time. Things ran unusually smoothly, material was delivered on schedule, there were no labor troubles, and the workers were actually engaged during 920 units of production time. The unemployment is of course the difference between the theoretical and the actual, or 80 units of production time. Under this proposal the “Unemployment Score” will be the percentage, or 8 per cent. Take the figures on that same building for all of last year and the result would probably not be so favorable because it would have to include much lost time. If we assume 50,000 units as the theoretical maximum for the entire year, and it happened that not more than 30,000 were actually accomplished, then the “Unemployment Score” would be 40 per cent. Under the proposed plan it must be possible to subdivide this percentage indefinitely. Thus the major causes may be rated as follows: absenteeism, 5 per cent; lack of materials, 10 per cent; bad weather, 4 per cent; strikes, 10 per cent; scattering, 11 per cent; total, 40 per cent.

If these unemployment scores are to have social significance and be fully effective as a guide to operating policies, loss of time of every character and description must be included in the percentages. For instance, under “absenteeism” would appear percentages of unemployment for such separate items as sickness, accidents, home conditions, liquor, tardiness, bad weather.

We approach nearer and nearer the time when proposals for unemployment insurance must be seriously entertained in this country. This affords a strong incentive for learning how to provide steady



employment before the law goes into effect. Of course the most important service which unemployment insurance can render will grow out of the pressure it will exert on management to reduce unemployment to a minimum.

### 251. An Ideal System of Labor Exchanges<sup>a</sup>

BY JOHN B. ANDREWS

It is apparent that our labor market is unorganized and that there is a tremendous waste of time and energy in the irregular and haphazard employment of workers. This waste we are beginning to appreciate, but methods for overcoming it in America have thus far proved inadequate.

The first and simplest method of bringing workmen and work together is by unsystematic private search. A man without work starts from home and drops in at every sign of "Help Wanted." This sign is the symbol of inefficiency in the organization of the labor market. The haphazard practice of tramping the streets in search of employment is no method at all. It insures success neither to the idle worker nor to the employer. It is impossible to reckon the cost to the community of this methodless method. Beyond the tremendous waste of time, there is the waste incurred in putting men into the wrong jobs. The law of chance decrees that, under such lack of care, misfits must be the rule.

A second common method is through the medium of advertising. About 2,000 newspapers in New York state carry every year some 800,000 columns of "Help Wanted" and "Situation Wanted" advertising, at a cost of about \$20,000,000—an expenditure of about \$5 for every worker in the state. If the money spent brought commensurate results there would be less ground for complaint. But unnecessary duplication of work and expenses by employer and employee is inevitable. In addition to expense, newspaper advertising possesses inherent possibilities of fraud not easy to detect.

Philanthropic employment bureaus fail mainly because the taint of charity justly or unjustly clings to them. For the most part they have become bureaus for placing the handicapped.

Private employment agencies, doing business for profit, have sprung up in all large cities. While many of them operate with a reasonable degree of efficiency, their general character is picturesquely if not elegantly indicated by their soubriquet, "employment

<sup>a</sup>Adapted from "A National System of Labor Exchanges," *New Republic*, I (No. 8, Suppl.), 1-5. Copyright, 1914.

sharks." Among the worst evils laid at the door of the private agencies are charging extortionate fees, "splitting fees with employers who after a few days discharge a workman, sending applicants to places where there is no work, and general misrepresentation of conditions."

Public employment bureaus in America date from 1890 when Ohio authorized the first state system. Today there are seventy or eighty such bureaus, maintained by nineteen states and a dozen or more municipalities. These offices charge no fees, maintain a neutral attitude in time of labor disturbances, and fill positions at a cost ranging from four cents to two dollars apiece. Notwithstanding the work of a few, these public bureaus are still far from furnishing an adequate medium for the exchange of information on opportunities of employment. Fewer than half of the states are represented. Many of the managers are political place-holders of worse than mediocre attainments. Some of the offices exist only on paper. A uniform method of record-keeping has yet to be adopted. Statistics are non-comparable and frequently unreliable. There is practically no exchange of information between various offices in a state or between states.

Although there are many causes of unemployment other than the malorganization of the labor market, these cannot be successfully attacked without a basis in comprehensive, conscientiously collected information such as cannot be furnished by our present machinery for dealing with the problem. Our paucity of information is a great hindrance to progress. Any scientific law-making on the programs of social insurance and of vocational guidance must be grounded on facts or relative employment and unemployment of the workers tabulated by trades, by sexes, and by ages. Without a nation-wide system of labor exchanges no basis can exist for anticipating in an accurate manner the ebbs and flows of the demand for labor. Without concentration of the information now collected and now separately held in thousands of organizations throughout the land, the possibility of looking into the future, or of profiting by the past, is out of the question.

It was a growing realization of the foregoing facts which inevitably led to the demand for a federal system of public employment bureaus. Such a system would cover the whole country. It would supplement and assist the work of state and municipal exchanges, dovetailing them with its own organization into an efficient whole. Country-wide co-operation and exchange of information would then be an accomplished fact instead of merely a hope. Statistics for the

study of unemployment and for the progressive development of new tactics on the campaign against it would be coextensive with national boundaries and comparable between different parts of the nation. The regulation of private agencies would be a natural function of the bureau, and the troublesome interstate problem would be solved by an interstate remedy. Finally the greater resources at the disposal of the federal government would provide better facilities for carrying on the work and would command the services of more able social engineers.

To combine into an effective organization the results of the ripest experience, a national bureau of employment should comprise three main divisions: (1) the central office at Washington; (2) a number of district clearing-houses; and (3) the local labor exchanges. Let us briefly sketch the special functions of each.

The central office would have the task of organizing the entire system. Its first activity would be the establishment and conducting of public labor exchanges. These should be built up with careful regard to existing state and municipal bureaus and in as many parts of the country as circumstances require and finances permit. The number of exchanges need not be constant, but can be varied in accordance with the needs of the labor market.

A second duty would be that of co-operating and encouraging, assisting, and to some extent regulating all the public employment offices conducted by other subdivisions throughout the country—state, county, town, or village. Here is the great field for the standardizing activities of a federal bureau. The scattered public agencies must be brought into co-operation with each other and with the federal system. It could devise a standard record system, encourage its adoption by the various agencies, and assist them in installing it. It could encourage the adoption of a uniform method of doing business and appraising results.

A third duty would be the division of the country into districts and the inauguration therein of district clearing houses. The fourth duty would be to carry on a campaign of the fullest possible publicity on the condition and fluctuation of the country's labor market. The fifth and last important function of a federal employment bureau is the troublesome one of regulating private employment agencies.

The district clearing-houses already mentioned are quite distinct from the local labor exchanges and should not be confused with them. The clearing-house finds no positions. Its functions are to exchange information between the local exchanges and between other correspondents in its district, to receive daily reports from all public

exchanges within its jurisdiction and reports from private agencies at least weekly, and to compile and publish these data for the district. It also carries on an interchange of information with the clearing-houses in other districts. It is the channel through which all the officers of its district would keep in constant touch with the national headquarters.

The functions of the ultimate units in this system, the local labor exchanges, may all be summed up in the words "bringing together workmen of all kinds seeking employment and employers seeking workmen. The good superintendent of an employment office will not wait behind his counter for employers and employees to hunt him up; he will take active steps in the process. He will build up a clientele among both parties to the labor contract.

Thus the jurisdiction of the projected federal bureau would extend throughout the country. In addition to its regulative activities, it would operate exchanges, build up a clearing-house system for employment information, and publish and distribute that information wisely. In short it would do "everything possible to aid in securing the fullest application of the labor force of the country."

## 252. The Vicious Circle<sup>1</sup>

BY JOHN DICKINSON

The situation upon which the demands of the union and the American Association impinge presents the general picture of a vicious circle kept going by the operation of two causes each of which stimulates and enhances the action of the other. These two causes are an excess supply of labor and the high seasonal character of the industry. Of the excess of labor there are two indications: first, the fact that the present active membership of the union is reported as larger than the number of workers known to have been actually employed for some time; and secondly, the sharp decrease in the number actually employed in recent years, rendering it possible and even probable that a considerable number of former workers are somewhere available as a labor reserve. This excess of labor seems to have characterized the industry during most of its history. For many years during the period of great immigration from 1880 down to 1910 potential workers were always at hand among the immigrant population in excess of the actual present needs of the industry. On the other hand, the seasonal character of the industry has required just such a labor supply in excess of normal needs to meet the sea-

<sup>1</sup>Adapted from *Report of an Investigation by the Governor's Advisory Commission, of the Cloak, Suit, and Skirt Industry, New York City, 1925.*

sonally recurrent peaks of production. It has been necessary at some time during each spring and fall season to be able to call extra workers into the shops for a short period to lift production to the level of the seasonal demand. At such times the labor supply is frequently not in excess of the momentary need and there may even be difficulty in securing all the workers required. This excess of work at the peak of the season has no doubt tended to maintain in the industry the surplus workers who might otherwise have been driven into other employments. The prospect of a chance to obtain work at the height of the season is very likely to hold out to the worker an illusory hope of regular employment which co-operates with his natural inclination to stick to his old trade and thus interferes with the natural economic tendency to equalize the supply of labor as of everything else with the demand for it.

The existence of a surplus labor supply serves in turn to enhance the seasonal character of the industry. Given the possibility of calling at short notice a large number of additional workers into the shops, there is an inducement to the manufacturer to time production to the vagaries of demand and to do nothing toward producing in advance of demand or toward seeking to stabilize demand. A restricted labor supply is bound to be a stimulus to continuous production, and even if the conditions of demand are such as to make continuous production impossible, serves to some degree to stabilize employment. A surplus labor supply on the other hand works in the opposite direction and is an actual force making for discontinuous and seasonal production.

Seasonal unemployment under the particular conditions of the industry is thus a thing which breeds upon itself and tends continually to increase within the limits of the existing labor supply. As it becomes more pronounced, and production concentrates more narrowly to a peak, there may come to be an actual shortage of labor at the height of the season, and this tends in turn to bring even more workers into the industry who swell the number of the unemployed during the period of slack work. Meanwhile the pressure of the demand for labor at the height of the season is an effectual check on the natural economic tendency of supply to conform to demand.

Seasonal unemployment in industry is a subject which has recently received increasing attention not merely at the hands of students of labor economics but also from industrial engineers. From the standpoint of labor its prevalence stimulates a tendency to demand wage increases in order that the total annual earnings of the workers may not be diminished by an alleged increase in periods of enforced idleness. These demands the employer finds it more and more difficult

to resist in the face of what has been called by a prominent economist, "the incontrovertible theory that an industry must carry all who are in the long run essential to its existence,—workers as well as owners of capital,—upon the theory that a worker invests his life in an industry just as a capitalist invests his savings."

### 253. Cyclical Distribution of Government Orders<sup>s</sup>

BY SIDNEY AND BEATRICE WEBB

Without securing an approximate uniformity, one year with another, in the aggregate demand for labor in the community as a whole, it is clear that unemployment on a large scale cannot be prevented. The only possible way in which that uniformity can be secured is the use of the government orders as a counterpoise to the uncontrollable fluctuations in the other orders. If this involved the stopping of all government orders in good years and doing all the government work in bad years, the proposal would be an impracticable one, because the government business must go on continuously, whatever the state of the labor market. But the desired result can be achieved by rearranging, within the decade, no more than 3 or 4, or even 6 or 8 per cent of the work that would otherwise have been done evenly year by year. It is impossible to believe that so relatively small a readjustment is not possible.

It may be asked how this policy differs from that of relief works now so universally condemned. In reality the two policies are poles asunder. What gives to relief works their evil character, whether or not they are of any real public utility, and whatever rate of wages is paid, is that the men employed are taken on because they are unemployed. Accordingly, relief works are of the nature of relief, not prevention. They do not prevent the occurrence of unemployment; they do not prevent that breach of continuity in the workman's industrial life which is so harmful to him. They merely come in, by way of succor, after the breach of continuity has occurred. By having to take on only those men who have already been thrown out of work, and taking them on because they have been thrown out of work, the managers of relief works find themselves necessarily saddled with a heterogeneous crowd of workmen, who are not individually picked out for employment because their specific services are required, in exactly due proportions to each other; but are taken *en bloc*, whatever their several qualifications and antecedents, just because they happen, at that particular time and place,

<sup>s</sup>Adapted from *The Prevention of Destitution*, pp. 114-18. Copyright by Longmans, Green & Co., 1911.

to be together unemployed. It is characteristic of any enterprise of remunerative character that it involves a high degree of organization, division of labor, the employment of the various grades and kinds of workers required in a certain exact proportion one to another, and so on. The result is not being able, on relief work, to pick exactly the men having the skill and antecedents that are required, and of having, instead, to take on a heterogeneous crowd, is that no industrial enterprise of any highly organized character can possibly be undertaken, and the work accordingly can hardly ever be remunerative, or form part of normal productive industry.

But it is not so much in the extravagant cost, or in the wastefulness, or in the lack of real utility that the evil of relief work lies. It is in their bad effect upon the character of the men whom they are intended to succor. The taking on of the heterogeneous crowd, not to work each of them at his own trade, for his own standard rate, but to labor at some common occupation that can simultaneously find employment for them all; which is known to have been undertaken merely to give them employment, from which they cannot practically be dismissed; and where they receive wages at a rate arbitrarily fixed, to a view of what they can live on rather than to the market rate for any particular kind of labor, inevitably has an adverse psychological reaction on the men themselves and on the foremen over them.

Contrast this with the proposal to give the government orders for works and services unevenly, and more in the lean years, rather than unevenly year by year. The mere fact that, on the index number of unemployment beginning to rise, the government puts in hand slightly more building work than would otherwise have been the case, orders rather more printing, somewhat increases its shipbuilding, raises this year the amount of its orders for blankets and sail-cloth above the normal, and temporarily accelerates the rate at which the telegraph wires are being laid underground, and the telephone is being extended to every village, would not mean the taking on of any crowd of unemployed workmen anywhere.

What it would mean in the first place, would be that various building firms and printing establishments all over the country would find themselves relieved from the necessity of turning off men; some shipbuilding yards would be able to abstain from the necessity of reducing hands; the mills producing blankets and sail-cloth would not need to go on short time; and the contractors for telegraph and telephone extensions would find themselves continuing in employment, and placing on the government work members of their staffs whom they would otherwise have had to dismiss. All this preven-

tion of discontinuity in the employment and wages of tens of thousands of workmen all over the country, and, for that matter, also in the profits of hundreds of employers, would automatically result in preventing much other discontinuity elsewhere. Even the gramophone makers might find themselves continuously, instead of intermittently, employed!

Where employers, by reason of the enlarged government orders, had actually to engage additional men they would do so, not with a view of "employing the unemployed," not even of confining themselves to the men who were at the moment actually out of situations, but deliberately, in order to attract to their service, it might be from some other employer's service, exactly the kinds and grades of workmen, individually selected on their merits, as being the most skilful and the most regular workmen who could then and there be found, in exactly the due proportion one to another that the expansion of the particular business required.

There would in this way be no adverse psychological effect on the workmen, any more than on the foreman who selected them and supervised their efforts or in the employer who saw to it that the normal discipline of his establishment was maintained. Instead it would not even occur to any of them that there was anything "artificial" or abnormal in the government order for sail-cloth or other commodities.

#### 254. Controlling Cyclical Unemployment<sup>9</sup>

BY JOHN MAURICE CLARK

The remedies for this series of evils are dictated by the causes at work. The relieving of destitution is necessary, but it is not a cure for the disease from which waves of destitution arise. It treats a symptom, rather than the root of the trouble. Since causes at work are manifold and act jointly, the remedies must reach into various fields. Physical production, the mechanism of prices, and the credit organism must all be attacked, while a prerequisite to a successful campaign is a development of the business state of mind into a hopeful, constructive, and co-operative attitude. In proportion as tangible experiments show hopeful results, this state of mind will grow and consolidate itself until ultimately even the psychological elements in the business cycle may come under some measure of control. The agencies to which we must look include government, the banking system, insurance, industry itself, and organized labor.

<sup>9</sup>Adapted from *Studies in the Economics of Overhead Costs*, pp. 407-11. Copyright by the University of Chicago, 1923.



The tactics to be adopted are some of them aimed at whittling off the peak of the boom, where it rises to altitudes at which business life cannot be sustained, others at filling in the bottom of the depression, and others at relieving distress whenever it occurs.

Proposals for whittling down the summit of the boom are chiefly confined to the purely financial inflation which occurs after production has reached its limit and the only effect of further expansion is to raise the prices of goods and securities, rates of discount, etc. Since this is a financial matter, the remedy is financial, and consists in restricting the granting of credit by banks through pressure exerted by the Federal Reserve System. The most obvious form of pressure would be an increase in the discount rates, though the gamut of possible devices is a matter to be discussed by specialists and developed by experiment. The time for applying these checks would have to be determined by means of accurate and comprehensive business statistics—business barometrics which afford separate records of physical production and its financial dimensions.

One policy tending to reduce the peak somewhat is that of making the employer bear some responsibility for the overhead cost of casual labor which he may hire, thus tending to make him reluctant to handle his peak demand in this way until he has tried his best to take care of it with the labor to which he gives regular employment. This would also tend to make him anticipate its demands as far as possible, and to postpone the least essential parts of the work which he has not been able to anticipate. One further argument for filling up the bottom of the depression rather than cutting down the peak is that it is easier to agree when a depression exists than when prosperity has passed the safe limit and needs to be curbed.

For filling up the hollows, the most positive and definite prescription is that government should plan an elastic schedule for public works of a postponable sort, and should save certain works to be prosecuted only in time of depression and unemployment, or prosecute the entire program more actively at such times. There is no need to argue the merit of this plan, for it is self-evident, especially after what has been said as to the causes of booms and depressions. It goes to the root of the matter, and the only debatable questions are those of ways and means for carrying it into effect. It has also been suggested that this same principle could be applied to the purchase of the more standardized sorts of supplies, if funds were available to buy them ahead of the need.

Of course these elastic budgets must be financed, and the revenues of governments shrink somewhat in dull times, especially those which come from indirect taxation. But between the setting aside of funds in good time and the use of banking credit, the thing could be done

without any serious difficulty. In Germany since the war, governments have financed the employment of hundreds of thousands of workers engaged in building roads, making gardens, reclaiming moorlands, completing the Berlin subway, building and repairing houses, and in many other kinds of work of general usefulness. Much of this labor works for private employers and contractors, with some necessary measure of public oversight. And if Germany can bear the financial burden, richer countries can certainly do so.

Still more could be accomplished if the resources of private industry itself were enlisted in the same cause, and this will be done as fast as private industry comes to feel and to bear, toward the joint overhead costs of the industrial organism, responsibility commensurate with its powers and opportunities. Railroads, for example, could do more in this direction than any other single agency, if they definitely undertook the task and had funds to carry it out. In the words of one writer:

The fact is that the state and the nation cannot get a grip of any kind on the unemployment problem until the capitalist has first discharged his obligations and responsibilities in the premises. When that is done the residual problem for federal or state action will not be a serious one in a rapidly expanding civilization like ours.

Systems of unemployment compensation are included in this program as means of making it worth the employer's while to stabilize work in his own establishment.

### 255. Taxing Irregular Employment<sup>10</sup>

The problem of making production regular, with its promise of regular employment and lower costs, is the problem of the business cycle. Here a single suggestion, prompted by our immediate concern with wages, may be made. It is that a tax as high as the traffic will bear be assessed against irregularities in the volume of employment. Since the conduct of employers proceeds from pecuniary interests, this makes it to their advantage to keep the volume of production and of employment regular from year to year. If the receipts were disbursed in unemployment benefits, this would give purchasing power to the unemployed, arrest the slump in buying, check the fall in prices, and reduce the violence of the rhythm.

This probably would not eliminate the business cycle, for its causes are too widespread to be gotten at by so simple a device. But it would hardly fail to make the rhythm less severe; it would effect a substantial saving; and it might suggest the next step in a program for bringing the business cycle under control and removing a very baffling problem in economic organization.

<sup>10</sup>An editorial (1922).

## C. INDUSTRIAL ACCIDENT

256. The Machine Process and Industrial Accident<sup>11</sup>

BY E. H. DOWNEY

Work accidents in the United States, 'according to the best attainable estimates, annually cause more than 35,000 deaths and about 2,000,000 injuries, whereof probably 500,000 produce disability lasting more than one week. To employ a telling comparison frequently made, the industrial casualties of a single year in this country alone equal the average annual casualties of the American Civil War, plus all those of the Philippine War, increased by all those of the Russo-Japanese War. As many men are killed each fortnight in the ordinary course of work as went down with the "Titanic." This single spectacular catastrophe appalled the civilized world and compelled governmental action in two hemispheres; while the ceaseless, day-by-day destruction of the industrial juggernaut excites so little attention that few states take the trouble to record the deaths and injuries.

The point especially to be emphasized in this connection is that the appalling waste of life revealed by the above cited estimates is, in great part, unavoidable. Doubtless the number of work accidents may be considerably reduced in the United States, as it has been reduced in Europe, by preventive measures. Yet when all possible precautions have been taken modern industry will continue to exact a fearful toll of life and limb. Even in the German Empire, which leads the world in accident prevention, there were reported in 1911, the last year for which statistics are available, 662,321 work accidents, whereof 9,687 terminated fatally and 142,965 caused disability for more than thirteen weeks. Scientific accident prevention in Germany has produced a lower accident rate and a much lower rate of fatal accidents than obtains in the United States, but it has left the total casualty list of industry deplorably large. Indeed, the number of work injuries in Germany, as elsewhere, is increasing, both absolutely and relatively to the numbers employed, as industrial development goes forward. The ugly fact is that work accidents, in the main, are due to causes inherent in mechanical industry on the one hand, and in the hereditary traits of human character on the other hand.

In the first place, a high degree of hazard inheres in present-day methods of production. Modern technology makes use of the most subtle and resistless forces of nature—forces whose powers of de-

<sup>11</sup>Adapted from *History of Work Accident Indemnity in Iowa*, pp. 1-5. Published by the State Historical Society of Iowa, 1912.

struction when they escape control are fully commensurate with their beneficent potency when kept in command. Moreover, these forces operate not the simple hand tools of other days, but a maze of complicated machinery which the individual workman can neither comprehend nor control, but to the movements of which his own motions must closely conform in rate, range, and direction. Nor is the worker's danger confined to the task in which he is himself engaged, nor to the appliances within his vision. A multitude of separate operations are combined into one comprehensive mechanical process, the successful consummation of which requires the co-operation of thousands of operatives and of countless pieces of apparatus in such close interdependence that a hidden defect of even a minor part, or a momentary lapse of memory or of attention by a single individual may imperil the lives of hundreds. A tower man misinterprets an order, or a brittle rail gives way, and a train loaded with human freight dashes to destruction. A miner tamps his "shot" with slack and dust explosion wipes out a score of lives. A steel beam yields to a pressure that it was calculated to bear and a rising skyscraper collapses in consequence, burying a small army of workmen in the ruins.

In the second place, human nature, inherited from generations that knew not the machine, is imperfectly fitted for the strain put upon it by mechanical industry. Sately to perform their work the operatives of a modern mill, mine, or railway should think consistently in terms of those mechanical laws to which alone present-day industrial processes are amenable. They should respond automatically to the most varied mechanical exigencies, and should be as insensible to fatigue and as unvarying in behavior as the machines they operate.

Manifestly these are qualities which normal human beings do not possess in anything like the requisite degree. The common man is neither an automaton nor an animated slide-rule. His movements fall into a natural rhythm, indeed, but the beat is both less rapid and more irregular than the rhythm of most machines—with the consequence that he fails to remove his hand before the die descends or allows himself to be struck by the recoiling lever. It requires an appreciable time for the red light or the warning gong to penetrate his consciousness, and his response is apt to be tardy or in the wrong direction. Fatigue, also, overcomes him, slowing his movements, lengthening his reaction time, and diminishing his muscular accuracy—thereby trebly enhancing his liability to accident.

The machine technology, in fact, covers so small a fraction of the life-history of mankind that its discipline has not yet produced a mechanically standardized race, even in those communities and classes

that are industrially most advanced. And so there is a great number of work injuries due to the "negligence of the injured workman"—due, that is to say, to the shortcomings of human nature as measured by the standards of the mechanician. This maladjustment is aggravated by the never-ceasing extension of machine methods to new fields of industry, and the continued influx of children, women, and untrained peasants into mechanical employments. Accordingly, the proportion of accidents attributable to want of knowledge, skill, strength, or care on the part of operatives appears everywhere to be increasing.

There is, then, no prospect that the "carnage of peace" will be terminated, as the carnage of war may be, within the predictable future. An industrial community must face the patent fact that work injuries on a tremendous scale are a permanent feature of modern life. Every mechanical employment has a predictable hazard; of a thousand men who climb to dizzy heights in erecting steel structures a certain number will fall to death, and of a thousand girls who feed metal strips into stamping machines a certain number will have their fingers crushed. So regularly do such injuries occur that every machine-made commodity may be said to have a definite cost in human blood and tears—a life for so many tons of coal, a lacerated hand for so many laundered shirts.

#### 257. Casualties in War and Industry<sup>12</sup>

How many Pennsylvanians will be returned disabled from war after a given period? How will that number of war disabled compare with the number of workers injured in the industries of Pennsylvania during a given period?

The answer to the first question can only be estimated, using as a basis the experience of countries engaged in the war over a period of years. The answer to the second question can be determined from the records of industrial accident reports submitted over a given period to the Pennsylvania Department of Labor and Industry.

The experience of Canada in the present war gives an unusual opportunity to forecast the number of disabling casualties that may be expected among Pennsylvania's soldiers. The population of Pennsylvania is approximately the same as the population of the entire Dominion of Canada, about 8,000,000. It is believed that Pennsylvania will ultimately raise an army of approximately the same size as Canada, between 400,000 and 500,000. It is therefore within the limits of possibility that the disabled soldiers, returned to Pennsyl-

<sup>12</sup>Adapted from "Comparative Casualties in War and Industry," *Bulletin of the Pennsylvania Department of Labor and Industry*, V (No. 2. 1918), 121-25.

vania after a given period of warfare, will be in the same proportion as to number and types of disability as have been returned to Canada during an equal period.

The army of employees remaining in Pennsylvania may be considered as six times as great in number as the army Pennsylvania will ultimately put in the field. The casualties suffered by that army of Pennsylvania workers—estimated to average continuously 3,000,000 during the two years and a half from January 1, 1916, to July 1, 1918—amounted to 577,053, including 7,575 fatalities. The number of industrial workers injured in two and one-half years in Pennsylvania is greater than the army that either Canada or Pennsylvania is sending against Germany.

In other words, if the number—not the percentage of the total engaged—of Pennsylvanians injured in the war equals the number of Pennsylvanians injured in the industries of Pennsylvania during the same period, every man in an army of 500,000 will be injured once and more than 75,000 men will be twice wounded during the same period.

Canada, after four years of war, has had approximately 50,000 men returned as unfit for further military service. This number does not include men who were sick or wounded and who recuperated. A vital factor in our comparison is the number of men returned as unfit because of disease. In England evidence shows that out of every one thousand cases of disablement, 547 are cases of disease and 453 are cases of wounds and injuries. If this ratio holds true for the disabled soldiers returned as unfit to Canada and to Pennsylvania, it indicates that only about one-half of the men invalided from war are suffering from wounds. Yet every man in the list of industrial accidents reported is actually wounded.

Approximately 1,200 of the 50,000 disabled soldiers returned to Canada are "amputation cases." For the same period in the industries of Pennsylvania there have been 3,798 industrial "amputation cases." After almost four years of war Canada's experience shows that less than fifty soldiers have been blinded. In the shorter period of only two years and one-half there have been 1,157 eyes lost in the industries of Pennsylvania; twenty-nine workers have been totally blinded.

#### 258. Some Sample Accidents<sup>13</sup>

An engineer at a power house fell asleep and allowed his fire to go out. Upon awakening, he secured some waste, saturated it with kerosene and lighted the fire. Despite twenty-five years' ex-

<sup>13</sup>Adapted from the *Bulletin of the Pennsylvania Department of Labor and Industry*, IV (No. 7, 1917), 12-18.

perience, he thoughtlessly failed to open the damper when he rekindled the fire. When the door was suddenly opened the flames shot outward and ignited his clothing, inflicting burns that caused his death three days later.

Recently an employee of an electric company was engaged in taking a cable off a reel and placing it on the drum of an electric hoisting engine. This operation required the man to hold the cable in one hand. When he was so engaged, his glove caught between the cable and the drum, pulling him over the latter and causing his head to strike the floor. He was injured so badly that he died the next day.

An employee of an engineering company was placing a temporary door frame in an elevator hatch. He was down on his knees placing a wooden block at the lower corner of the frame. He failed to notice that the elevator was above him. While he was in this stooping position, the operator, without giving a signal, started to lower the elevator. In its descent the repair man's head was caught between the floor and the bottom of the car and he was killed instantly.

An employee of a manufacturing establishment spilled some gasoline on his clothes while filling a can from a storage tank. While his clothes were in this condition he attempted to light a cigarette. An explosion followed, and the man was badly burned about the chest and abdomen.

Although rules prohibited the oiling of machinery while in motion, an employee in a manufacturing plant placed a ladder against the moving line shaft and attempted to oil the bearings. His blouse caught on the shafting and he was whirled around and crushed against the rafters.

An employee of a steel company went behind a scrap pan in the pouring pit to take a nap. A pan from the adjacent pit was hooked up by the crane man and transferred to the side of the other pan, and on being lowered it dropped on the man's head killing him instantly. It had been the practice of some of the men to sleep behind these pans. In this instance it was impossible for the crane man to see the man, as he was lying on the opposite side of the pan.

A laborer at an open hearth went out on the railroad track, where a draft of four cars was standing, and sat down on a rail in the shade of the end car to rest. While he was sitting there, a draft of six cars was pushed in on the siding and bumped into the four cars already there. The man was run over and instantly killed.

A man was handling freight. A splinter penetrated the sole of his shoe and entered his foot. He did not report the injury for nine days. By this time septic poisoning had resulted. Five days later he died.

Recently an employee of an electric manufacturing company was making repairs to a fan support under a ceiling. He was using the traveling crane as a base for his scaffolding, and he had placed several planks across between girders which were about six feet apart. The planks he selected were 6 inches by 2 inches, and carelessly he used one with a knot which extended half across the plank. When he stepped on the plank it broke under his weight and he fell to the floor, sustaining injuries from which he died.

Considerable grease had collected upon the large calender rolls of a paper manufacturing company. A man was cleaning them with a gasoline blow torch, as was customary. He had occasion to go underneath the machine, and he thoughtlessly set a lighted torch on the edge of the machine. It fell on him when he was underneath the gears. His clothing caught fire and he was burned so badly that he died the next day.

#### 259. Imputation of Responsibility for Accidents<sup>14</sup>

##### *a) Safety First*

Employees, before they attempt to make couplings or to uncouple, will examine and see that the cars or engines to be coupled or uncoupled, couplers, drawheads, and other appliances connected therewith, ties, rails, tracks, and roadbeds, are in good safe condition. They must exercise great care in coupling and uncoupling cars. In all cases sufficient time must be taken to avoid accident or personal injury.

##### *b) Efficiency First*

Entirely too much time is being lost, especially on local trains, due to train and enginemen not taking advantage of conditions in order to gain time doing work, switching and unloading and loading freight. Neither must you wait until train stops to get men in position. It is also of the utmost importance that enginemen be

<sup>14</sup>The first of the two selections given here is an excerpt from an official bulletin of a railway company; the second is an excerpt from a letter of instruction to employees issued by the same company. The first suggests that there may be truth in the frequently repeated statement that "the most effective way for railroad employees to practice sabotage is to live up to the rules of the company."



alive, prompt to take signals, and make quick moves. In this respect it is only necessary to call your attention to the old adage, which is a true one, that when train or enginemen do not make good on local trains it thoroughly demonstrates those men are detrimental to the service as well as their own personal interests, and such men, instead of being assigned to other runs, should be dispensed with. I am calling your attention to these matters with a view of invigorating energy and ambition, in order that your families who are dependent on you to make a success shall not some day point the finger of scorn at you, and that the public may not be able to say you lost your position due to lack of energy and interest in your own personal welfare, for which you can consistently place the responsibility on no one but yourself.

## 260. Industrial Accidents and the Theory of Negligence<sup>15</sup>

BY LEE K. FRANKEL AND MILES M. DAWSON

Let us consider the principles which, only a quarter century ago, determined the right of a workman to recover compensation from his employer. Those principles still apply, with some modification, in all the states of the United States, and have but recently been discarded in part by the federal government itself. The elementary theory of "the law of negligence," as it is usually called, in its relation to the liability of employers for financial loss to workmen and their families, was originally the same in all civilized countries. The development of the law of liability has not been identical in every country, but nowhere, probably, has the principle been pushed so far as in the United States. The doctrine has, however, been modified somewhat by decisions of the courts and by act of our legislatures.

The underlying principle of the law of negligence is that *the employer is liable only in case he is at fault; that is, he must have been neglectful in some respect and this negligence must have been the proximate and sole cause of the accident.* In that case it declares that he alone must bear the financial burden of compensation.

Liability of the employer for his own negligence is qualified as follows:

*First, it is not enough that he was the chief cause.*

If the employe himself has been negligent and if this in any degree contributed to the accident, the employer is not held. This is known as the principle of "contributory negligence." The idea is that the courts, not being able to separate results flowing from these

<sup>15</sup>Adapted from *Workingmen's Insurance in Europe*, pp. 5-7. Copyright by the Russell Sage Foundation, 1910.

two causes and to determine how much was due to one and how much to the other, will refuse to grant compensation if the employee's negligence contributed to the accident even though only in a slight degree.

*Second, the accident must not have been a consequence of the ordinary risks of the occupation.*

If it can be shown or the conclusion fairly be deducted that the employee assumed this particular risk as a condition of his contract of employment, or as the ordinary risk of his occupation of which he knew or was bound to know, the employer is not held. If the employee was aware that certain danger existed and notwithstanding continued to work, this action on his part would bar recovery. As a corollary to this, the courts have held very generally that the employee must be presumed to know what are the ordinary dangers of his occupation, and even what are the unusual dangers connected with continuing to perform the duties of that occupation, when the place where it is carried on, or the machinery or tools with which it is carried on, are defective.

This is called the principle of "assumption of risk." Some courts have gone so far as to hold that, even though the employer is required by law to keep the machinery, tools, and the place in which the work is done in a certain condition of safety, and that although by failing to do so he has rendered himself liable to a penalty, the workman, notwithstanding, will not be able to recover if he has known of these defects and has nevertheless continued to work. The same courts have also held that the fact that he has called the defects to the attention of his employer and asked that they be remedied, will not render the employee liable if the workman, notwithstanding that the defects have not been remedied, continues to work. In fact, calling the defects to the attention of others prejudices his claim in that it is proof positive that he knows of them.

*Third, the accident must have been the result of the employer's own negligence and not that of another employe or employes.*

If the workman has been injured because one or more of the employes working with him were negligent, the employer will not be held. This proceeds from the idea that each workman whose negligence has caused the injury should himself be held financially responsible; and since in most cases he is in fact financially irresponsible and could not respond to a judgment, the result of the application of this rule is that the persons injured are not compensated at all. This is directly contrary to the rule which applies when the injury is to one not an employee; in that case the employer, under the general doctrine of principal and agent, is held liable.

The principle stated above is known in practice as the "fellow-

ship upon individuals and results in the smallest diminution of the community's economic assets.

In approaching this problem it is necessary to bear in mind that industrial injuries chiefly fall to the lot of wage-workers, who are dependent upon their daily earnings for their daily bread, who have no savings to speak of, and whose incomes are too narrow to afford any adequate margin for insurance. Wages, indeed, have risen in consequence of the price inflation of the war period, but the wage-earner's position has not thereby much improved. Competent investigators in many cities have estimated that a minimum income of \$1,500 to \$2,000 is necessary, at present price levels, to maintain an American standard of living for a family of five persons. Wage statistics are to be read in the light of these estimates. New York state is well above the general level of the Union as to both wages and prices, yet the average weekly earnings of New York factory-workers in 1920, even without deduction for periods of disability and unemployment, were little more than \$25. In the first half of 1919, 262,000 men employed in manufacturing establishments throughout the United States averaged nearly \$25.50 a week, and 85,000 women averaged about \$13.50. In the great cotton-goods industry, in 1918, more than one-fourth of all employees received less than \$10 and barely one-seventh received more than \$20 weekly. The average weekly earnings of 1,246 women and girls in the candy-making trade in Philadelphia, in 1919, were \$10.30; only 262 received as much as \$12 a week, and only 9 (all forewomen) were above the subsistence minimum for a self-supporting, unmarried woman. Even bituminous coal miners, just prior to the strike of 1919, were earning, upon an average, something less than \$100 monthly. Railroad workers fared somewhat better, showing an aggregate monthly average of \$119 in 1919; yet 40 per cent of the whole number were paid less than \$100 a month and only 5 per cent exceeded \$200.

It needs no argument to show that families in receipt of incomes such as these can have neither property, savings, nor insurance of substantial amount. A vast number do contrive to carry burial insurance—mis-called “industrial insurance”—for which they pay premiums out of all proportion to the benefits. The average value of some 37,000,000 such “industrial” policies in force at the end of 1918 was \$145 and the average annual cost was about \$4.45. Many of the better-paid workmen also carry “fraternal” life insurance, in amounts ranging from \$100 to \$1,000—enough to prevent immediate destitution, but utterly inadequate as a permanent provision for a family which has lost its chief breadwinner. About one in four of the wage-working population, lastly, have some insurance against accident or disease, though usually of very trifling amount.

The typical wage-earner neither does nor can provide, out of his own earnings, against the contingencies of accident, sickness, unemployment, or old age.

The ugly fact is that American wage-workers, with few exceptions, are always near the poverty line. To a man so situated, even if no one but himself is dependent upon his earnings, the loss of a few weeks' wages means privation, and permanent incapacity means beggary. But the wage-worker without dependents is quite exceptional. Three-fifths of the victims of work accidents are heads of families, and one-third of the remainder contribute to the support of others. Of 2,608 wage-earners killed on the job in Pennsylvania, 1,588 left 4,723 dependents of whom 3,198 were children under the age of sixteen; 303 were contributing to the support of parents or of younger brothers and sisters, and only 718, or 28 per cent of the total, were without known economic responsibilities. In the great majority of instances, therefore, a serious work accident deprives a necessitous family of its sole or chief support. The immediate result, in the absence of systematic accident relief, is poverty and the long train of evils that flow from poverty. When a skilled craftsman is killed or injured in the course of duty, the children are taken out of school, the family removes to less comfortable quarters in a more undesirable neighborhood, the mother takes in boarders or goes out to work, the boys sink to the rank of the unskilled, and the girls marry beneath the economic class in which they were born. When a similar calamity befalls a common laborer, the widow and the older children eke out such scanty earnings as they can at casual labor or in the sweated trades; if the family are numerous or the children young, the hopeless struggle too often ends in pauperism.

If such hardships were unavoidable, or if there were any prospect of social gain therefrom, the situation might be tolerated. But the hardship is totally needless and the resultant lowering of the standard of life is a clear social loss. The very burden which falls with crushing weight upon the individual workman and his family can be so distributed over the community as to be scarcely perceptible in the retail price of any commodity. Two per cent of wages would cover the full accident cost of manufacturing industry as a whole and 2 per cent of wages are much less than 1 per cent of manufacturers' price. A really adequate scale of compensation benefits, such as has never yet been established in the United States or elsewhere, would add something like ten cents to the cost of a sixty-dollar suit of clothes, thirty-five cents to the cost of a fourteen-dollar ton of anthracite coal, and two hundred dollars to the cost of a ten-thousand-dollar home.

In these facts lie the need and the justification of the compensa-

tion system. Since disabling injuries by accident and disease are inevitable concomitants of that mechanical industry which has made modern civilization possible, and the products of which are enjoyed in fullest measure by the classes least exposed to its hazards, since the victims of these injuries are precisely those least able to bear the burden of economic loss themselves or to shift it to others, since the resultant evils of poverty affect not alone the families immediately concerned but the state as well, and since the whole pecuniary cost of work injuries can be so distributed as to be little felt by anyone, public opinion has almost everywhere come to hold that those who are crippled in the production of the community's wealth, and the dependents of those who are killed, have a right to indemnity from the public for whom they wrought. This principle has been indorsed both by organized labor and organized capital, by the American Federation of Labor and the National Association of Manufacturers, by the Railway Brotherhoods, the Steel Corporation, and the International Harvester Company. It forms the basis of legislation in twenty-six foreign countries and in forty-two of the United States, and has been recommended for adoption by every investigating commission that has thus far reported in this country or abroad. So generally, indeed, has the principle of workmen's compensation been accepted by students of political science, by jurists, statesmen, and the public, that "to assert to the contrary is to turn the face against the enlightened opinion of mankind."

The principle of compensation is most conveniently and effectually applied by treating the economic cost of industrial injuries as a direct expense of production, in the same category with wages, machinery, and materials. The employer, in our entrepreneur system of industrial management, is the keeper of the purse; it is his function to assemble the instrumentalities of production and to cover the expenses thereof into the price of the product. If, then, the employer is held legally responsible for death or disability in the course of employment, he will protect himself by insurance against unusual loss and will incorporate the prevalent cost of industrial injuries in the price of vended goods and services. This method secures the widest, the least burdensome, and perhaps on the whole the most equitable distribution of the cost of industrial accidents and disease. It is what is meant by the principle sometimes formulated into statute law, that each industry shall bear the cost of personal injuries actually arising therein. In the last analysis it comes to saying that the consumers of any given commodity shall make good the wage loss incurred, as well as the wages expended, in the course of production.

## D. SICKNESS AND HEALTH

262. The Nation's Physical Fitness<sup>17</sup>

In an instructive chapter the second report of the Provost Marshal General summarizes the data relating to the physical qualifications of the men examined for military service under the selective draft law during the period from December 15, 1917, to September 11, 1918. Inasmuch as the data pertain to 3,208,446 men physically examined, it is evident that they furnish an unparalleled source of information regarding the physical condition of the nation's manhood.

It is interesting to note that out of these 3,208,446 registrants physically examined by the local boards, 70.41 per cent were found fully qualified for all military duty. These men were re-examined by the camp surgeons for induction into military service, and an average of 8.1 per cent of them were rejected. These physical examinations and re-examinations therefore revealed the fact that only 64.71 per cent of the registrants in the age-group twenty-one to thirty-one were fully qualified for all military duty.

It is further noted that there were rejected as having defects such as to render them unfit for military duty 21.68 per cent of registrants from urban regions; and 16.89 per cent of registrants from rural regions. Likewise 17.32 per cent of negro registrants were rejected and 16.08 per cent of whites. From alien communities 17.14 per cent of registrants were rejected, and from native communities 13.64 per cent of registrants. This seems to indicate that rural registrants were in better physical condition than the urban, the white than the colored, and the native than the foreign-born.

Undoubtedly the physical examinations of so many men in this age group taken evenly from all sections of the country constitute a fair index of the health of the general population. This is especially true since the local board examinations were checked up by the examinations of the camp surgeons. In considering these findings and before applying the ratios to the general population the age of the registrants examined must not be forgotten. Physical unfitness undoubtedly increases with age. The report gives an important clue to the increasing ratio of physical unfitness in comparing the men in the age-group twenty-one with those in the age-group twenty-one to thirty-one. Those in the younger age-group gave 76.89 per cent physically fit for all military duty as compared with 69.17 per cent given by the older age-group. Only 9.93 per cent of the men in the

<sup>17</sup>Adapted from an abstract of the second report of the Provost Marshal General, published in *Public Health Reports*, XXXIV (1919), 624, 633-34.

younger group were found wholly unfit as compared with 17.47 per cent of the older age-group.

Making due allowance for error and differences due to sex, age, and sections of the country, an application of these findings to the country as a whole leads to the conclusion that the health of the nation is far below what it ought to be. This is especially true when one considers that only 65 per cent of our young men are found physically fit for military service and over 21 per cent are disqualified for all military duties, even of the limited class.

These conditions are not confined to any one section of the country. There is no great difference in the ratios for the North, South, East, or West, urban or rural, native or foreign-born. In fact some of our previously formed conclusions as to the healthfulness of the several sections of the United States have to be somewhat revised. Thus we face the striking fact that when the rejections made by the camp surgeons are included less than 52 per cent of the registrants in the state of Washington are in the condition of health required of all accepted for all military duties as compared with over 73 per cent in this condition for the state of Arkansas, and this despite the fact that Washington enjoys the lowest death-rate of any state in the union. Again, taking some of the findings from New England usually considered one of the most healthful sections of the country, we observe that in Massachusetts less than 53 per cent of the residents are up to the required standard in health, in Vermont less than 52 per cent, and in Maine less than 62 per cent, whereas the southern section of the United States shows that Oklahoma furnished over 77 per cent fit for all military duties, Arkansas over 73 per cent, and Alabama over 66 per cent.

The figures from all sections of the country are sufficiently appalling to show that it is of the greatest importance for the whole nation to realize that it is high time to search out the causes of the physical unfitness and find the proper remedies. It is the supreme duty of all agencies, national, state, and local, to work together to these ends.

### 263. The Incidence of Disease<sup>18</sup>

BY JOHN E. RANSOM

How great is the sickness problem in the state? What is being done to solve it? What more ought to be done?

These are the important questions the Illinois Health Insurance Commission set about to answer. Special attention was given to the

<sup>18</sup>Adapted from an article in *American Labor Legislation Review*, X, 41-43, which reviews the findings of the Illinois Health Insurance Commission in 1919.

economic results of sickness to the wage-earner and his dependents, and to the existing provisions for meeting the cost of sickness.

An exhaustive study of some 3,048 families, living in carefully chosen localities in Chicago, was made by the commission to the end that the findings would be typical of our wage-earning population. The data sought related themselves to sickness, medical service, and protection against sickness risks. In detail they dealt with the extent, duration, and costs of sickness; the nature and kinds of medical service; the extent and amount of insurance against sickness and death; the relation of sickness to poverty and to dependency, and other relevant information. The great value of this study lies in the fact that it gives us a cross-section of the actual wage-earning community rather than of a selected group, such as the recipients of relief, dispensary patients, or any other class of persons whose experience is typical only under the conditions which make them a "group."

What was the sickness problem of these 3,048 families? The investigation showed that 65.8 per cent of them had one or more cases of serious sickness in the year. In 571 families serious sickness confined itself to wage-earners or members otherwise gainfully occupied; in 543 a gainfully occupied member and one or more dependents were sick; in 891 families the sickness was not that of a wage-earner. These figures signify that two out of every three families will have one or more of its members sick in a given year; one out of every three families will have one or more gainfully occupied members ill in a given year; one out of six families will have one or more gainfully occupied members and one or more other members ill. The seriousness of the problem is thus made apparent by the extent of sickness.

It has been frequently stated that if all sickness among wage-earners were spread over the entire group the average time loss would approximate nine days for each wage-earner. This statement has been used as an argument that such time loss is insignificant. But sickness does not so distribute itself. Of 4,474 wage-earners covered by the commission's studies, 937, or 20.9 per cent, lost a week or more. The average time loss of 901 of these was 7.35 weeks each, or 14.1 per cent of a year. Other studies of sickness among wage-earners show that of those sick for more than 7 days, 65 per cent will be sick for less than four weeks; 19 per cent from 4 to 8 weeks; 7 per cent from 8 to 12 weeks; 6 per cent from 12 to 24 weeks; 3 per cent for more than 6 months; and 1.29 per cent for more than a year. Thus sickness is shown to be a serious matter because of the time loss it entails.



Sickness costs include the two items of lost wages and expense of medical service. The commission secured data concerning sickness costs from 1,667 families. For these the average total cost of sickness was \$97.98 per family. This represents an average income loss of 7.5 per cent. The cost-burden of sickness as well as the incidence of sickness was found to be heaviest in the lowest income group, being \$107.33 in families whose incomes for the year did not exceed the equivalent of \$850 for a family consisting of two adults and three children under fifteen. Thus sickness is of concern because of its cost.

Not only was sickness the cause of deficits in at least 12 per cent of the wage-earning families affected, but many (298 out of 1,909 families) in which there was sickness of a week or more duration had no medical service at all and a much greater number received free medical service. In fact, the commission's investigations show that at some time during the year 40 per cent, or two out of every five wage-earning families which had disabling sickness of a week or more duration, had recourse to medical charity. Sickness thus has grave economic and social aspects.

That sickness is an insurable risk is well established by the existence of flourishing mutual and commercial organizations providing insurance against that risk. In fact, there is a great variety of these organizations in Illinois. To what extent does this existing voluntary health insurance meet the sickness problem which our investigations revealed?

Less than one-fourth of the wage-earners studied reported themselves as protected by insurance against the risks of sickness. Only 13.4 per cent of those wage-earners who lost wages for a week or more because of sickness received any benefits partially indemnifying them for such loss. What they did receive averaged only 44.1 per cent of their loss from sickness. Taking the group as a whole, the disability insurance received was only 6 per cent of the wage loss caused by disabling sickness of a week or more duration. The lowest income group in which there was most sickness and greatest sickness cost had the lowest average benefit, or only 15.5 per cent of wages lost as compared with 43.1 per cent and 47.4 per cent, respectively, in the two higher-income groups. In nearly all instances the whole cost of sickness insurance is borne by the wage-earner. That which is carried by commercial casualty companies is very expensive, as evidenced by the fact that less than half of the money paid in as premiums is paid out in cash benefits to the sick. The health insurance at present carried by wage-earners in Illinois does little more

than provide partial indemnity for lost wages. There is practically no provision for covering even a part of the cost of medical service.

#### 264. Health Insurance for the United States<sup>19</sup>

BY B. S. WARREN AND EDGAR SYDENSTRICKER

The case for a health insurance system for the United States or for the several states and the general outlines of an effective system can be indicated in the following summary statement:

1. The fact that health insurance has been so generally adopted in European countries as a solution of the problem of the wage-earner's health suggests its serious consideration in this country as a measure for the relief and prevention of sickness.

2. At present each of the 30,000,000 wage-earners in the United States loses about nine days each year on account of sickness. Estimating the loss in wages at \$2 per day and the cost of medical attention at \$1 per day, the total loss to the wage-earners of the nation is approximately three-quarters of a billion dollars annually.

3. In addition to conditions which affect the health of the population as a whole, some of the more important economic factors which increase the health hazard of the wage-working population are: (a) occupational hazards; (b) irregularity of employment; (c) unhealthy conditions of living (d) employment of women under modern conditions of work, particularly of married women; and (e) economic disadvantages at which a large proportion of wage-workers and their families are placed as the result of low wages and insufficient annual income.

4. Underlying all the economic factors is the fact of poverty and the partnership of poverty and disease.

5. Three groups—employers, the public, and employees—are responsible for conditions causing sickness among wageworkers and their families.

6. With few exceptions, the responsibility of employers for the health of employees is limited to places of employment and working conditions.

7. The public is responsible for community conditions or conditions common to all classes of citizens.

8. The greatest share of responsibility rests upon the individual unable to meet this responsibility, especially the unskilled, low-paid wage-earner. Under present conditions a large proportion are workers.

<sup>19</sup>Adapted from *Health Insurance: Its Relation to the Public Health*, pp. 66-68 (*Public Health Bulletin* No. 76, 1916).

9. The inability of the wageworker to meet the cost of sickness places a serious handicap upon the medical profession in its efforts for the relief and prevention of disease.

10. There is an increasing need for a more effective method of dealing with the problem of the wage-earner's health—one which will place the burden of responsibility where it belongs and stimulate the co-operation of all concerned in its solution.

11. Health insurance is the most feasible method because (a) it distributes the cost of sickness among those responsible for conditions causing sickness and lightens the burden upon the individual; (b) it gives a financial incentive for the prevention of sickness to those who are responsible for the conditions causing sickness.

12. Health insurance in its most highly developed form (a) provides for adequate cash and medical benefits to all wage-earners in time of sickness; (b) distributes the cost among employers, the public, and wage-earners; (c) becomes an effective health measure by stimulating the co-operative effort of the three responsible groups and by linking their efforts with those of governmental health agencies; (d) correlates all the forces in the prevention of disease; and (e) affords a better basis for the co-operation of the medical profession.

13. Under an efficient health insurance system a contribution of approximately 50 cents per week per insured person (25 cents by employees, 20 cents by employers, and 5 cents by the government) should enable the insured persons to receive (a) \$7 per week when disabled by sickness or accident for as much as twenty-six weeks in a year; (b) adequate medical and surgical care during disability; (c) medical and surgical care of wife of insured person during confinement; (d) a death benefit of \$100.

14. A governmental system of health insurance can be adapted to American conditions, and when adapted will prove to be a health measure of extraordinary value.

The fact that under such a system the employee has such a large measure of ownership and control will remove all elements of paternalism. He will regard the benefits as rights, not charities. Adequate medical relief will be placed within the reach of even the lowest paid worker and provide for him and his family during sickness. It will give to those responsible for conditions causing sickness a financial incentive to prevent disease.

Its administration must be closely co-ordinated with public-health agencies if it is to attain the greatest degree of success as a preventive measure.

265. The Case against Health Insurance<sup>20</sup>

BY P. T. SHERMAN

*The danger of taking some people's money without their consent and giving it to other people.*—In the Standard Bill it is proposed to deprive responsible adults in part of the right to use their own money as they may choose for satisfying their own needs and those of their families, and instead to turn such portion of that money as the state deems applicable to sickness over to a political association to be used or distributed as a majority of that association or of the State Commission may choose. If the percentage of incomes so deemed applicable to that one need may rightly be so disposed of, the same thing may rightly be done also with the percentages of incomes so deemed applicable to providing for the risks of invalidity, old age, premature death, and unemployment. But if all that be proper, why would it not be just as proper to take the proportion of individual incomes deemed by the government to be applicable for food, clothing, housing, etc.? And if one-fifth of the cost of insuring some people, not all of whom are in need, may be taken from other people, why not two-fifths or three-fifths? We should not be off our guard in this matter. The movement in America for compulsory insurance obtains much of its support from those who seek it as a means of transferring wealth, with complete collectivism as the end.

*The danger of weakening individual initiative and family responsibility.*—Clearly, if the state is to see to it that every person in want is to be well provided for, individuals will have no more need to exert or deny themselves for the purpose of making provision for themselves and their families. This is the most vital objection. All schemes of this kind which tend to confuse the self-sufficient working people with the submerged and "down-and-outs" are apt to harm the former class both in their pocket-books and in their morale.

*The economic danger from malingerers.*—It is an objection to voluntary insurance that it is apt to exclude the bad risks in the community, physical as well as moral. On the other hand, there is a very grave danger from general compulsory insurance in that it errs in the opposite direction, and, besides including the bad physical risks, brings in the bad moral risks from whom malingering and impositions are to be expected. Would not a comprehensive system insuring high rates of benefits to the parasitic classes result in a

<sup>20</sup>Adapted from "Criticism of the Standard Bill" (1917), pp. 14-16, 20. The adaptation is from Douglas, Hitchcock, and Atkins, *The Worker in Modern Economic Society*, pp. 446-47. Copyright by the University of Chicago, 1923.

reduction in the aggregate social insurance of the community, through the exhaustion of capital, the discouragement of savings, and a ruinous increase of the burden on the better classes of the insured?

*The medical danger.*—Compulsory sickness insurance tends to bring the practice of medicine into politics; and the effects on its quality certainly are not good.

## 266. The Public Interest in Health<sup>21</sup>

BY GEORGE E. VINCENT

To amplify Gladstone's assertion that "the health of the people is the foundation on which repose the power and happiness of any country" is to elaborate the obvious. The physical and mental energy of a community or a nation are fundamental factors in welfare. The history of civilization is being reinterpreted in terms of health and disease.

Modern preventive medicine has passed through two stages and has entered upon a third. At first, disease was seen chiefly in the environment. Stress was laid upon the "filth" theory. Effort was directed to sanitation, to improve water supplies, to sewage and refuse disposal, and to abatement of nuisances. In the second stage, attention was centered upon infectious diseases. Bacteria in individuals were recognized as a menace. Inspection, compulsory reporting of contagious disease, and quarantine were resorted to. The diagnostic laboratory became the center for the identification of disease, and later for the preparation of antitoxins, vaccines, and sera. The third stage recognizes the importance of personal hygiene. A large majority of the diseases which contribute to the death-rate cannot be controlled by public authorities. These maladies can be avoided or minimized only by the intelligent self-control of the individual. Hence the demand for education in public health, the agitation for periodic medical examinations of all citizens, the call for physicians who will be counselors for health rather than curers of disease.

The progress of modern preventive medicine has revealed a gradual changing of ideals and shifting of emphasis. Even if Pasteur's faith that "it is within the power of man to banish the infectious diseases from the world" were vindicated, the result would be negative rather than positive. Health in the individual and the community will less and less be thought of as absence of weakness and pain,

<sup>21</sup>Adapted from "Public Welfare and Public Health," in *The Annals*, CV, 36-41. Copyright by the American Academy of Political and Social Science, 1923.

more and more as a sense of vigorous well-being and abounding energy. The health department of the future will not regard itself as a disease department; its goal will be not only life, but life more abundantly.

Public-health progress is conditioned by the state of scientific knowledge. The achievements of the last half-century are directly traceable to significant discoveries, especially in the field of bacteriology. Since 1879, distinguished investigators have isolated the germs of leprosy, pneumonia, typhoid, malaria, tuberculosis, tetanus, dysentery, plague, diphtheria, and yellow fever. Some of the investigators were individual workers. Others were members of institutes of research which have in recent years been established in many countries of the world.

The practical application of this scientific knowledge has been successful in many countries. Striking examples of sanitary statesmanship are the campaigns against malaria and yellow fever by Ross in India; Grassi, Bignami, and Bastianelli in Italy; Finlay and Gorgas in Cuba; and by Gorgas in Panama. The less conspicuous activities of cities, states, and nations in protecting community health have in the aggregate produced momentous results. Death-rates in the leading countries of the world have been lowered during the last twenty years in a dramatic way. Since 1900, the general death-rate in Great Britain has fallen from 18.2 per thousand to 12.1 in 1921. In the registration area of the United States the decline during the same period has been from 17.6 to 11.7. Infant mortality may be regarded as the best test of the general hygienic conditions of a people. In twenty years in Great Britain the rate has fallen from 154 to 83. In New York City the infant mortality has declined from 273 per thousand births in 1885 to 71 in 1921.

The protection and fostering of health are primarily governmental tasks. Only the city, the county, the state, or the nation can exercise the police power and levy the taxes which are essential to successful, efficient administration of health work. Voluntary agencies may support but they cannot replace public authority. Moreover, the international nature of public health calls for the co-operation of governments, which are more and more working together in a common effort to control epidemics, regulate quarantine, standardize biological products and health procedures, and thus gradually create a world-health organization.

While governments must assume primary responsibility for preventive medicine, private voluntary agencies play an important part in the modern movement for fostering health. In the United States alone there are more than sixty private associations and societies

which seek to promote various phases of public-health work. Life-insurance companies and endowed foundations are also devoting large sums to similar purposes. Demonstrations in the control of a given disease or in the carrying out of a general health program may be conducted under the joint auspices of a public health department and of a voluntary health society.

A comprehensive modern public-health program should, according to Rosenau, embrace the following useful fields of activity: (1) the prevention of the communicable diseases; (2) the prevention of non-communicable diseases; (3) sanitation, or biologic cleanliness, including an improved environment; (4) vital statistics, or the bookkeeping of humanity; (5) education, or the diffusion of knowledge among the people in regard to sanitation and hygiene; (6) infant welfare and the reduction of infant mortality; (7) the health and development (physical, mental, and moral) of the school child and the adolescent; (8) food and nutrition, the relation of diet to growth and health; (9) industrial hygiene, the health of the worker; (10) personal hygiene, mental hygiene; (11) maternity and the care, protection, and encouragement of the function of motherhood; (12) eugenics, the principles of sound breeding and heredity; (13) research to extend the boundaries of knowledge.

It has been asserted that public health is purchasable. The implication is that a community can improve its health conditions to the extent that it is willing to pay the cost. This is an illuminating idea and contains a great truth. Health protection is a concern of the community in its organized capacity and ought to be regarded as one of the common tasks. The public-health officer should welcome an opportunity to educate the people to the support of wise measures for promoting the common welfare. As a public servant, he should understand men as well as microbes and be a politician in the older and better sense of the word.

The social and economic implications of public health ought not to be overlooked. Public health depends not only upon sanitation and the control of contagious diseases, but on nutrition, housing, recreation, mental content, and serenity. In this large sense public health becomes a question of the standard of living, of economic production and the distribution of wealth. In short, it raises the whole social problem. It is intimately related to the entire field of public welfare. In this wider meaning it calls for more than the governmental activity of a health department. It demands the co-operation of all welfare agencies, each one of which can make a contribution to public health considered in its social relations.

The question of rural health has only recently begun to receive

the attention that it deserves. While urban health conditions have shown rapid improvement, rural death-rates have revealed no corresponding tendency. Relatively, the countryside has lost ground. Typhoid, tuberculosis, hookworm, malaria, rheumatism, and other crippling diseases are all too common in rural districts. Country school children show worse defects on the average than city pupils. Only 56 per cent of the 3,027 counties in the United States have hospitals. This situation is oftentimes not so serious as it appears. Good roads have made town and city hospitals more accessible. The problem of medical care causes some apprehension. The motor-car has multiplied the availability of doctors, but few young and moderately trained men seem to be settling in the rural districts.

About 210 counties have full-time health departments. It is hoped that this system will gradually spread. The question of cost at once is raised. It is not certain that the average rural community can afford to pay the total expense of the health service which it needs. State and even federal subsidies are proposed as solutions of the fiscal difficulty. Such aid from central treasuries is advocated on the ground that the entire country is concerned in making life safe and attractive to producers on the farms.

Public health is a fundamental condition of public welfare. It is developing a scientific basis and administrative technic of increasing efficiency. The ideal of public health is changing from a negative form of protection to a positive fostering of physical and mental vigor. The conditions of continued progress are: well-trained public officials free from political interference, secure in the tenure of office, adequately paid, commanding sufficient funds, and trusted by an intelligent public. Public education in personal hygiene is an essential condition of improvement in health and of community support for public-health programs. In order that preventive medicine may become efficient in the best sense, it must secure the hearty co-operation of all public and private agencies for welfare. One of the most important tasks in public-health work in the United States is the protecting and fostering of health in the rural districts.

## E. THE STANDARD OF LIVING

### 267. The Nature of the Standard of Living<sup>22</sup>

BY THORSTEIN VEBLEN

A standard of living is of the nature of habit. It is a habitual scale and method of responding to given stimuli. The difficulty in

<sup>22</sup>Adapted from *The Theory of the Leisure Class*, pp. 106-13 (1899). Copyright by B. W. Huebsch, 1912.



the way of receding from an accustomed standard is the difficulty of breaking a habit that has once been formed. The relative facility with which an advance in the standard is made means that the life-process is a process of unfolding activity and that it will readily unfold in a new direction whenever and wherever the resistance to self-expression decreases.

In the language of current economic theory, while men are reluctant to retrench their expenditures in any direction, they are more reluctant to retrench in some directions than in others; so that while any accustomed consumption is reluctantly given up, there are certain lines of consumption which are given up with relatively extreme reluctance. The articles or forms of consumption to which the consumer clings with the greatest tenacity are commonly the so-called "necessaries of life," or the subsistence minimum. The subsistence minimum is of course not a rigidly determined allowance of goods, definite and invariable in kind and quantity; but for the purpose in hand it may be taken to comprise a certain, more or less definite, aggregate of consumption required for the maintenance of life. Beyond these come the higher wants—later-formed habits of the individual or the race—in a somewhat irregular and by no means invariable gradation. Some of these higher wants, as, for instance, the habitual use of certain stimulants, or the need of salvation (in the eschatological sense), or of good repute, may in some cases take precedence of the lower or more elementary wants. In general, the longer the habituation, the more unbroken the habit, and the more nearly it coincides with previous habitual forms of the life-process, the more persistently will the given habit assert itself. The habit will be stronger if the particular traits of human nature which its action involves, or the particular aptitudes that find exercise in it, are traits or aptitudes that are already largely and profoundly concerned in the life-process or that are intimately bound up with the life-history of the particular racial stock.

The accepted standard of expenditure in the community or in the class to which a person belongs largely determines what his standard of living will be. It does this directly by commending itself to his common sense as right and good, through his habitually contemplating it and assimilating the scheme of life in which it belongs; but it does so also indirectly through popular insistence on conformity to the accepted scale of expenditure as a matter of propriety, under pain of disesteem and ostracism. To accept and practise the standard of living which is in vogue is both agreeable and expedient, commonly to the point of being indispensable to personal comfort and to success in life. The standard of living of any class, so far as

concerns the element of conspicuous waste, is commonly as high as the earning capacity of the class will permit—with a constant tendency to go higher. The effect upon the serious activities of men is therefore to direct them with great singleness of purpose to the largest possible acquisition of wealth, and to discountenance work that brings no pecuniary gain. At the same time the effect on consumption is to concentrate it upon the lines which are most patent to the observers whose good opinion is sought; while the inclinations and aptitudes whose exercise does not involve a honorific expenditure of time or substance tend to fall into abeyance through disuse.

Through this discrimination in favor of visible consumption it has come about that the domestic life of most classes is relatively shabby, as compared with the éclat of that overt portion of their life that is carried on before the eyes of observers. As a secondary consequence of the same discrimination, people habitually screen their private life from observation. So far as concerns that portion of their consumption that may without blame be carried on in secret, they withdraw from all contact with their neighbors. Hence the exclusiveness of people, as regards their domestic life, in most of the industrially developed communities; and hence, by remoter derivation, the habit of privacy and reserve that is so large a feature in the code of proprieties of the better classes in all communities. The low birth-rate of the classes upon whom the requirements of reputable expenditure fall with great urgency is likewise traceable to the exigencies of a standard of living based on conspicuous waste. The conspicuous consumption, and the consequent increased expense, required in the reputable maintenance of a child is very considerable and acts as a powerful deterrent. It is probably the most effectual of the Malthusian prudential checks.

## 268. Wages and the Standard of Living<sup>23</sup>

BY JOHN R. COMMONS AND JOHN B. ANDREWS

That a large proportion of unskilled workers are paid wages far too low for decent self-support is a fact confirmed by many wage investigations and well known to those even slightly familiar with present-day industrial conditions.

Even before the era of unprecedentedly high prices ushered in by the war, it was the consensus of expert opinion that a weekly wage of \$8 or more was necessary under urban conditions for the maintenance of a self-supporting woman in simple decency and work-

<sup>23</sup>Adapted from *Principles of Labor Legislation*, pp. 183-87. Copyright by Harper & Bros., 1916, 1920.

ing efficiency, and that a man with a wife and three children required at least \$15 to \$20 weekly for their proper support. Yet a study made at that time of women's wages in the United States concluded that 75 per cent of female wage-earners received less than \$8 weekly, 50 per cent less than \$6, and 15 per cent less than \$4, and that these wages were further reduced approximately 20 per cent through lost time and unemployment.<sup>24</sup> The pay of unskilled male workers was at a correspondingly low level. The United States Immigration Commission studied a large number of typical households representing both native and foreign-born in sixteen leading industries. More than half of the male heads of families earned less than \$500 a year, and nearly two-thirds less than \$600.<sup>25</sup> A little later the New York State Factory Investigating Commission examined the pay-rolls of over 2,000 stores and factories during the fall, winter, and spring of 1913-14. Out of 57,000 women and girls, approximately 34,000, or 60 per cent, earned less than \$8 in a typical week. Seven thousand out of 14,000 married men, or 50 per cent, earned less than \$15.<sup>26</sup>

During the war the wage level was materially raised, but owing to the unprecedented rise in prices that accompanied the change it is doubtful whether real wages were materially altered for the better, except perhaps in a few war industries and in certain occupations covered by especially liberal government wage awards. The United States Bureau of Labor Statistics estimated that the cost of a family's living increased 80 per cent in the chief shipbuilding centers of the United States between June, 1914, and June, 1919, and 70 per cent in other localities. The National Industrial Conference Board, which is a federation of several large employers' associations, and likely, therefore, to be conservative in its estimates, put the increase at 71 per cent for the similar period of June, 1914, to July, 1919. The National War Labor Board found in June, 1918, when the cost of living had risen but 55 per cent above pre-war levels, that \$1,380 a year, or about \$26.50 a week, was necessary for a family of five to maintain the "minimum of subsistence" in the large eastern cities.

On the average, wages had failed to reach these standards in 1919, while prices showed few signs of falling, in spite of anti-"high cost of living" campaigns. The New York Industrial Commission, securing between November, 1918, and January, 1919, figures on the earnings of 32,000 women in the same industries which

<sup>24</sup>Charles E. Persons, "Woman's Work and Wages in the United States," *Quarterly Journal of Economics* (Feb., 1915), p. 232.

<sup>25</sup>Arthur N. Holcombe, "The Legal Minimum Wage in the United States," *American Economic Review*, II (1912), 33.

<sup>26</sup>Howard B. Woolston, "Wages in New York," *The Survey* (Feb. 6, 1915), p. 510.

had been covered by the Factory Investigating Commission in 1913-14, found that 60 per cent of those in factories and 61 per cent of those in stores received less than \$14 a week. The average weekly wage for both sexes in a large number of representative New York State factories was but \$24.83 a week in September, 1919, while in eight large industries for which data were collected by the National Industrial Conference Board, the average weekly wage for male workers was \$24.24 in September, 1918, and \$23.37 in March, 1919.

It seems, then, no exaggeration to say that the majority of low-skilled industrial workers in the United States receive wages too small for decent self-support. This fact explains the demand for minimum wage legislation as necessary to social welfare; the causes for the low scale form the economic basis which determines the extent to which the demand is practicable and the legislative standards enforceable.

The almost entire absence of strong labor organizations and collective bargaining among this group of wage-earners is an important factor in producing the low wage scale. Many are women who are often members of a family group, unable to move from place to place in search of better opportunities, but remaining at home to overcrowd the few lines of work available in a given locality. Then, too, the majority of women workers are young and inexperienced and their frequent withdrawal from industry on marriage makes them look upon their work as only temporary. In the United States the situation, until the outbreak of the European war, was further complicated by the stream of immigration, which furnished an abundant supply of cheap labor and which put still another barrier, in the shape of divergent language and customs, in the way of union organization.

Another reason for the low wage scale, largely the result of the first, is the cutthroat competition of the workers for work. Among the unskilled, unorganized workers, the wage that the cheapest laborer, such as the partially supported woman, the immigrant with low standards of living, or the workman oppressed by extreme need, is willing to take very largely fixes the wage level for the whole group.

Moreover, a socially undesirable type of competition between employers flourishes when the bargaining power of employees is weak. The encouragement of superior ability and invention has always been pointed out as one of the chief advantages gained by the community from the competitive system of production. When an employer can hire workers for practically his own price, he can be slack and inefficient in his methods, and yet, by reducing wages, reduce his cost of production to the level of his more able competitor.

269. A Basis for a Living Wage<sup>27</sup>

BY DOROTHEA DAVIS KITTREDGE

If progress is to be made in determining a living wage, there must be first of all an agreement on some essential criterion of such a wage—some big factor which a living wage must render possible, and which is capable of clear-cut definition. From time to time, this criterion may be enlarged and expanded, but a simple beginning will doubtless be productive of the best results. Up to the present time, no criterion has been suggested which seems to be more satisfactory than that of health. It is quite universally accepted that health is the right of every man, woman, and child, and no matter how indifferent a corporation may be toward the happiness and progress of its employees, it nevertheless looks with favor on a healthful community as a good business asset. Health seems, therefore, a possible criterion of a living wage. At any rate, it will serve as an illustration of what may be done to determine such a wage on a definite foundation.

Health, as judged by competent physicians, is a tangible matter, with a rather definite line of demarcation between individuals who are sick and those who are well, those who are diseased and those who are free from disease, those who are on the verge of physical collapse and those who are robust with energy in reserve. On the basis of thorough physical examinations, a representative number of workingmen's families should be rated by skilled physicians. Going hand in hand with this physical rating, but as a separate line of the research, the standard of living of these families should be studied by dietitians and other experts, and a comparative rating of the standard of living arrived at for each family. When sufficient data have been collected from a representative number of families, the relationship between the health of the families and the various standards of living represented by them may be established. With the results of various standards of living expressed in terms of health, there would be unquestionable evidence of those things which a wage must provide if it is to maintain families, in general, in health. The cost of such essentials at current prices would be the amount of the living wage, established on the basis of health. The definition of such a wage would be a statement of those quantities of family consumption which were found to be necessary in maintaining families in health.

<sup>27</sup>Adapted from "A Suggestion for Determining a Living Wage," *American Economic Review*, XIII, 225-29. Copyright by the American Economic Association, 1923.

As in other branches of research, there is need in the "science of living" for the establishment of definite standards. Because of the extent of human variations, it has been felt almost impossible to establish norms, yet in other fields of investigation standards which apply to these same varying individuals are being used daily. In the field of psychology, intelligence tests have made possible a measure of intelligence for each individual, which is referred to as his "intelligence quotient." The United States Public Health Service has already made numerous physical measurements of industrial workers which, if extended to complete medical examinations, could be made to express a measure of health for each individual. Since the family is the unit which must be considered in the living-wage controversy, these measures could be combined into a "health coefficient" for the entire family. This would be simply a convenient index of the family's state of well-being. For all families on which a health coefficient had been arrived at, there should also be a standard-of-living rating, an index of the family's level of living. The interrelation between these two indexes should throw considerable light on the point where the living wage begins.

The correlation between health and the standard of living is primarily one of method. The workingman is not, of course, expected to be interested in his family's health coefficient or standard-of-living rating, and before presenting to the public the findings of such a study, it will be necessary to translate back into quantities of bread, butter, meat, coal, and other essentials, the standard-of-living rating which was found to accompany the acceptable health rating.

Too much cannot be said of the importance of quantitative measurements in living-wage determinations. Not many years ago we were accustomed to speak of a definite number of dollars per individual of given age as the sum necessary to provide for his needs for a year. Now, after having passed through a period of fluctuating prices, in which there was a rise in the cost of living of over 100 per cent in six or seven years, we are convinced of the fallacy of attempting to define a living wage on the basis of a money standard. There is, however, one factor which has remained constant throughout the years when prices and the value of money have been ever changing. There has been no change in the size of a quart of milk, a dozen of eggs, or a pound of butter. The "hunger satisfaction" derived from each has remained the same. Quantity, therefore, as expressed in weights and measures, has proved to be the only stable method in purchasing foods, and quantity is the only language in which the living wage can be discussed or defined. The stability which a quantitative standard affords for items of food, fuel, and

light does not exist to the same degree in clothing and house furnishings, but even in such items as these, quantity has remained more constant than any other factor which can be handled in ascertaining those things which a living wage must provide.

The working out of a relationship between standards of living and their respective results in health will require two groups of people.

First, a number of representative families of American workmen who are willing to be the subjects of intensive investigation must be found. A preliminary survey of a large number of families will probably have to be made in order to select those of the desired size, and those which will represent different standards of living. It may also be advisable to select, for intensive study, families free from physical defects or chronic diseases. The chief inconvenience to the families which are selected to be studied will be to submit themselves occasionally for medical examinations, and for the housewife to keep simple accounts of quantity and cost of everything consumed by the family, and to answer such queries as it may be necessary to make, for which work she should be reasonably compensated. Otherwise, the family could go on living in its accustomed way, and remain entirely oblivious to the findings of the study or to the particular level of living or health which it represents.

Much has already been indicated of the personnel of the second group of persons necessary to carry on the living-wage research. It would consist of physicians, dietitians, and experts qualified to rate standards of housing, sanitation, and other essential factors. The persons selected to analyze and interpret the data must be thoroughly capable and strictly impartial. Only in this way can both sides of the controversy be expected to regard the findings with confidence.

The great need for scientific research to ascertain what constitutes a living wage should be obvious, and can hardly be over-emphasized. The standard-of-living and health ratings offer a suggestion of a means by which this question may be answered. It is a problem which must be solved some time, and the sooner a plan is formulated and the work started, the sooner it will be possible to conduct wage hearings on common ground with a scientific foundation.

## F. THE MINIMUM WAGE

### 270. The Futility of the Minimum Wage<sup>28</sup>

BY J. LAURENCE LAUGHLIN

The hysterical agitation for a minimum wage (today urged chiefly for women) has in it no conception of a relation between wages and

<sup>28</sup>Adapted from "A Monopoly of Labor," *Atlantic Monthly*, CXII, 451-53. Copyright, 1913.

producing power. It is unsound for several reasons which touch the very interests of the laborers themselves.

It introduces a new and unjustifiable basis of wages—that wages shall be paid on the basis of what it costs the recipient to live. If it is urged, for instance, that a woman cannot live on \$5.00 a week but can live on \$8.00 and hence her minimum wage should be \$8.00, the whole case has not been considered. If we accept—what we should not accept—the principle that wages should be related to the cost of living, and if it is accepted that the woman should live on \$8.00 a week, on what grounds should she ever receive more than \$8.00 a week? On what grounds could any one get \$18.00 a week? At present \$18.00 is paid on the ground that it is earned, that is, on the basis of a relation between wages and producing power. No other basis can stand for a moment in the actual work of industry. Men go into business to gain profit; if, in their opinion, the employe is not worth \$8.00 a week, she will not be retained, no matter what it costs to live. If she is worth to the business \$18.00, that will be the wage. No law can force anyone to remain in a business that does not pay.

The theory of a minimum wage based on the cost of living is flatly inconsistent with the facts of daily life and preparation for any occupation. At what age or point is a beginner, or apprentice, to receive the full legal wage? Is no boy, or apprentice, to be allowed to receive a partial reward till he is a full-fledged adult workman? How about the woman, who, in the economic rôle of domestic labor, knits stockings in odd hours in order to add a little to the family income—shall she receive nothing if not the full legal wage? Shall the boy, or even a young lawyer just entering an office, be forbidden to receive the small stipend of the preparatory period?

Suppose it were required by law to pay shopgirls \$8.00 a week instead of \$5.00 on the ground that the insufficient \$5.00 leads to vice; then, since no ordinary business would pay \$8.00 unless it were earned, those who did not earn \$8.00 would inevitably be dropped from employment without even the help of \$5.00 to save them. If \$5.00 is no protection from vice, how much less is no wage at all? This proposal of a minimum wage is directly opposed in practice to the very self-interest of the girls themselves.

It is crass to try to remedy wages which are admittedly too low by fixing a legal minimum wage, which can never be enforced unless private business establishments are to be regarded as state institutions. In a state factory, wages may possibly be determined by law, but not in open competitive business conditions, where the supply of labor has as much influence on wages as the demand. If the supply of women wage-earners converges on only certain kinds of



work, wages will be lowered by the very large supply of the workers. There is no exit by this door of legal enactment as to the amount of wages.

The true and immediate remedy is the creation of ready means by which the industrial capacity of the wage-earning women will be increased. The wrong situation—of which low wages, possible starvation, and the temptation to vice are only symptoms—is due primarily to the fact that women thrown on their own resources know no trade and crowd each other in the market for unskilled labor. The remedy lies in the creation of places of instruction where any woman (no matter how poor) shall be taught a trade and have skill given to her by which she can obtain a living wage.

The remedy lies in preventing a congestion of unskilled feminine labor by industrial education. There is no other rational or permanent or human way out of the present wretched situation, if we have the real interest of the workers at heart—and are not interested chiefly in getting some cheap political notoriety.

This conclusion applies to men as well as to women. Is not a skilled carpenter worth more than a blunderer? In any business, does not everyone agree that it is fair to give a very energetic, live, active, skilful salesman more than a stupid? If he is skilled he earns more, because he brings in more business. That being settled we do not fix his wages on what it costs him to live. He has a right to spend his income as he pleases. Hence if we were to adopt the theory of the minimum wage we should be adopting a new theory of wages, which would justify the refusal to pay higher wages based on efficiency.

The only real permanent aid to low wages is to increase the productivity and skill of the persons at the bottom. Instead of talking of such injurious palliatives as minimum wages, create institutions at once where those persons can be given a trade or training for a gainful occupation. The cry for a minimum wage is evidence of the industrial incapacity, the lack of producing power, in masses of our people. The concrete ways of increasing the productive power of each man and woman are not unknown. Moreover, the captain of industry can introduce carefully worked-out plans for helping his operatives to rise in life; to better conditions by welfare work; to encourage savings and thrift; to introduce the stimulus of profit-sharing; and, above all, establish civil-service methods devised to pick out and promote the promising youth so that the path from the bottom to the top is open to every employee. Under unrestricted competition, there will be seen the inevitable results of "natural monopoly" by which superiority comes to its own and wages are in some proportion to productive power.

271. The Utility of the Minimum Wage<sup>20</sup>

BY LEO WOLMAN

Rules of the game prevail in business and industry as they do in sport; and in both the rules serve much the same purposes. They prevent confusion by supplying the players with an orderly procedure; or they assure the participants in the game fair and equal treatment; or they provide standards of performance that establish the levels on which the games are played. Long experience with the lighter as well as with the more serious activities of life has taught us that the players cannot always be trusted to make their own rules or, when they make them, to enforce them. They are either overcome by the excitement of the contest; or they are careless, ignorant, indifferent, and callous. In any event they are not of a mind to judge calmly and judiciously the consequences of their acts. Usually, when this has been the case, the community, through its sober, thoughtful, and disinterested members, has fashioned new rules, modified old ones, and applied them all to the activity in question.

The history of the progress of business organization and of the technical advance of industry has been marked in the past century by the rapid multiplication of rules, restrictions, and regulations that fix the limits within which competitive enterprise is permitted to operate with freedom. To the passionate onlooker the growth of such measures may seem to have been painfully slow; but there can be no question of their present extent and of their infinite variety. Even in the United States where commitment to an individualistic philosophy is assumed to be more tenacious than elsewhere, the advances in this direction have been impressive. Rules are now in force in this country which protect consumers against their own carelessness and ignorance; workers against their weakness; and business men against the unconscionable practices of their fellows.

It is impossible here to reproduce even a catalogue of these rules and regulations, but the mere mention of a few of the measures that affect the conditions of employment of workingmen and workingwomen will suggest their scope and meaning. American legislation and executive orders, both local and national, limit hours of labor; fix the time and form of wage payments; provide for the inspection of shop, factory, and mine; set standards of sanitation and safety; protect wages from certain forms of legal action; prohibit, within limits, night work and the employment of child labor;

<sup>20</sup>Adapted from "Economic Justification of the Legal Minimum Wage," *American Labor Legislation Review*, XIV, 226-33. Published by the American Association for Labor Legislation, 1924.

provide for the compulsory payment of insurance benefits to the crippled and maimed of industry; and recognize the legality of collective bargaining.

Underlying the various projects for control is the purpose to subject business and industry to certain minimum standards of conduct. Restrictions on industry have not grown out of an empty and abstract inclination to restrict and to regulate but out of the failure of industry to perform its major functions in accordance with the reasonable requirements of public service.

With the recognition of the need for rules to correct the faults of private enterprise, there is also the realization of the dependence of various groups of the population on measure of protection. Now it is the ignorant consumer who requires protection against adulterated goods; now the investor against worthless stock certificates; now the laborer against a grasping, indifferent, or ignorant employer. Certainly a fair share of the restrictive and regulatory legislation which is now effective in this country would never have been enacted, if there had not been some measure of certainty that the individual was powerless to protect himself. This belief is without question the foundation of most of our so-called labor legislation.

In spite of the steady and substantial growth in severity and number of restrictive laws, there still exists, and probably always will, a widespread prejudice against state interference. This feeling is sometimes aroused by a single, particularly obnoxious statute; but it persists, in general also, because of distrust of the competency of the state and faith in the wisdom and accomplishments of untrammelled private enterprise.

However general and effective this prejudice may be, there can be no question of its force and persistence in matters touching the regulation of wages and prices. Hours of labor may be limited; the payment of insurance premiums exacted; standards of safety established; but wages and prices must remain inviolate. The reasons for this emphasis are, of course, not altogether clear. It probably comes from regarding price, as we know it today, as the symbol of the competitive system. Attempt to control prices and you strike at the very head of free enterprise; for prices, and consequently wages, are determined by forces, guided, perhaps, but not controlled by the business man. To block, or in any way to interfere with, such forces is to pursue a dangerous and destructive policy.

It requires no proof to demonstrate that a reduction in hours from ten to eight will produce the same effects on costs as proportionate increase in wages. It is, in fact, impossible to think of any regulation of the conditions of employment which does not add to

costs. The installation of safety devices in factories where machinery had previously been unprotected may, and does, involve a substantial addition to that firm's cost of production. The same results flow from the payment of insurance premiums; the provision of sanitary facilities; the substitution of adult for child labor. They are all items in cost; when they are raised, costs rise, and under ordinary circumstances when costs rise, prices may be expected to rise also.

But in this sequence it is impossible on sound economic grounds to distinguish wages from any other item in cost. If it be true that, in some instances, wages are the most substantial factor in cost, then it is also true that at other times and in other cases, the other items of cost predominate. The same generalization holds true of the relative opportunities for shifting increases in cost that arise from higher wages or from changes in the expenses for these other items. The ways of shifting additions to the pay-roll, due to rising wages, are as varied, as fruitful, and as available as are those of passing on insurance premiums or other items in the cost of running a factory or a business.

No valid distinction, on economic grounds, can then be drawn between wages and other conditions of employment, which have been the subject of legal regulation. The principle of economic justification is as sound and as ruling for one as it is for all. It certainly is not the assumption underlying this class of social legislation that progress in some standards should be achieved at the expense of loss in others. This conclusion is strikingly illustrated in the successful outcome during the past months of many years of agitation for the introduction of the three-shift system into the steel industry; until the very end there prevailed the tacit expectation that steel workers would not suffer in their standards of earnings as a result of an improvement in their standards of leisure.

So far, therefore, as this movement for higher standards of employment, in all of its many forms, has any validity at all, it rests on the belief in the capacity of American industry to yield these higher standards. For whether it be a minimum wage law, or a child labor law, or an accident insurance law whose enactment is being urged, they all represent the pressure of standards of living on the yield of industry.

Whether the capacity of American industry to pay for higher standards is overestimated is a type of question which has received little more than the most general consideration. Although the advance in the statistical analysis of these matters has been substantial, it is too much to expect for some years to come a categorical answer

hours, by an adjustment in respect of the amount of wages. Enough has been said to show that the authority to fix hours of labor cannot be exercised except in respect of those occupations where work of long-continued duration is detrimental to health.

If now, in the light furnished by the foregoing exceptions to the general rule forbidding legislative interference with freedom of contract, we examine and analyze the statute in question, we shall see that it differs from them in every material respect. It is not a law dealing with any business charged with a public interest or with public work, or to meet and tide over a temporary emergency. It has nothing to do with the character, methods, or periods of wage payments. It does not prescribe hours of labor or conditions under which labor is to be done. It is not for the protection of persons under legal disability or for the prevention of fraud. It is simply and exclusively a price-fixing law, confined to adult women who are legally as capable of contracting for themselves as men. It forbids two parties having lawful capacity—under penalties as to the employer—to contract freely with one another in respect of the price for which one shall render service to the other in a purely private employment where both are willing, perhaps anxious, to agree, even though the consequences may be to oblige one to surrender a desirable engagement and the other to dispense with the services of a desirable employee. The price fixed by the board need have no relation to the capacity or earning power of the employee, the number of hours which may happen to constitute the day's work, the character of the place where the work is to be done, or the circumstances or surroundings of the employment; and, while it has no other basis to support its validity than the assumed necessities of the employee, it takes no account of any independent resources she may have. It is based wholly on the opinions of the members of the board and their advisers as to what will be necessary to provide a living for a woman, keep her in health, and preserve her morals. It applies to any and every occupation in the District, without regard to its nature or the character of the work.

The standard furnished by the statute for the guidance of the board is so vague as to be impossible of practical application with any reasonable degree of accuracy. What is sufficient to supply the necessary cost of living for a woman worker and maintain her in good health and protect her morals is obviously not a precise or unvarying sum—not even approximately so. The amount will depend upon a variety of circumstances: the individual temperament, habits of thrift, care, ability to buy necessities intelligently, and whether the woman lives alone or with her family. To those who

practice economy, a given sum will afford comfort, while to those of contrary habit the same sum will be wholly inadequate. The co-operative economies of the family group are not taken into account though they constitute an important consideration in estimating the cost of living, for it is obvious that the individual expense will be less in the case of a member of a family than in the case of one living alone. The relation between earnings and morals is not capable of standardization. It cannot be shown that well-paid women safeguard their morals more carefully than those who are poorly paid. Morality rests upon other considerations than wages; and there is, certainly, no such prevalent connection between the two as to justify a broad attempt to adjust the latter with reference to the former. As a means of safeguarding morals the attempted classification, in our opinion, is without reasonable basis. No distinction can be made between women who work for others and those who do not; nor is there ground for distinction between woman and men, for, certainly, it women require a minimum wage to preserve their morals men require it to preserve their honesty.

The law takes account of the necessities of only one party to the contract. It ignores the necessities of the employer by compelling him to pay not less than a certain sum, not only whether the employee is capable of earning it, but irrespective of the ability of his business to sustain the burden, generously leaving him, of course, the privilege of abandoning his business as an alternative for going on at a loss. Within the limits of the minimum sum, he is precluded, under penalty of fine and imprisonment, from adjusting compensation to the differing merits of his employees. It compels him to pay at least the sum fixed in any event, because the employee needs it, but requires no service of equivalent value from the employee. It therefore undertakes to solve but one-half of the problem. The other half is the establishment of a corresponding standard of efficiency, and this forms no part of the policy of the legislation, although in practice the former half without the latter must lead to ultimate failure, in accordance with the inexorable law that no one can continue indefinitely to take out more than he puts in without ultimately exhausting the supply.

The feature of this statute which, perhaps more than any other, puts upon it the stamp of invalidity is that it exacts from the employer an arbitrary payment for a purpose and upon a basis having no casual connection with his business, or the contract or the work the employee engages to do. The declared basis, as already pointed out, is not the value of the service rendered, but the extraneous cir-

cumstance that the employee needs to get a prescribed sum of money to insure her subsistence, health, and morals.

In principle, there can be no difference between the case of selling labor and the case of selling goods. If one goes to the butcher, the baker, or grocer to buy food, he is morally entitled to obtain the worth of his money but he is not entitled to more. If what he gets is worth what he pays he is not justified in demanding more simply because he needs more; and the shopkeeper, having dealt fairly and honestly in that transaction, is not concerned in any peculiar sense with the question of his customer's necessities. Should a statute undertake to vest in a commission power to determine the quantity of food necessary for individual support and require the shopkeeper, if he sell to the individual at all, to furnish the quantity at not more than a fixed maximum, it would undoubtedly fall before the constitutional test. The fallacy of any argument in support of the validity of such a statute would be quickly exposed. The argument in support of that now being considered is equally fallacious, though the weakness of it may not be so plain.

Finally, it may be said that if, in the interest of the public welfare, the police power may be invoked to justify the fixing of a minimum wage, it may, when the public welfare is thought to require it, be invoked to justify a maximum wage. The power to fix high wages connotes, by like course of reasoning, the power to fix low wages. If, in the face of the guaranties of the Fifth Amendment, this form of legislation shall be legally justified, the field for the operation of the police power will have been widened to a great and dangerous degree. If, for example, in the opinion of future lawmakers, wages in the building trades shall become so high as to preclude people of ordinary means from building and owning homes, an authority which sustains the minimum wage will be invoked to support a maximum wage for building laborers and artisans, and the same argument which has been here urged to strip the employer of his constitutional liberty of contract in one direction will be utilized to strip the employee of his constitutional liberty of contract in the opposite direction. A wrong decision does not end with itself; it is a precedent, and, with the swing of sentiment, its bad influence may run from one extremity of the arc to the other.

It has been said that legislation of the kind now under review is required in the interest of social justice, for whose ends freedom of contract may lawfully be subjected to restraint. The liberty of the individual to do as he pleases, even in innocent matters, is not absolute. It must frequently yield to the common good, and the line beyond which the power of interference may not be pressed is

neither definite nor unalterable but may be made to move, within limits not well defined, with changing need and circumstance. Any attempt to fix a rigid boundary would be unwise as well as futile. But, nevertheless, there are limits to the power, and when these have been passed, it becomes the plain duty of the courts in the proper exercise of their authority to so declare. To sustain the individual freedom of action contemplated by the Constitution is not to strike down the common good but to exalt it; for surely the good of society as a whole cannot be better served than by the preservation against arbitrary restraint of the liberties of its constituent members.

### 273. The Minimum Wage and Public Policy<sup>31</sup>

BY OLIVER WENDELL HOLMES

The question in this case is the broad one, Whether Congress can establish minimum rates of wages for women in the District of Columbia with due provision for special circumstances, or whether we must say that Congress has no power to meddle with the matter at all. To me, notwithstanding the deference due to the prevailing judgment of the Court, the power of Congress seems absolutely free from doubt. The end, to remove conditions leading to ill health, immorality, and the deterioration of the race, no one would deny to be within the scope of constitutional legislation. The means are means that have the approval of Congress, of many states, and of those governments from which we have learned our greatest lessons. When so many intelligent persons, who have studied the matter more than any of us can, have thought that the means are effective and are worth the price, it seems to me impossible to deny that the belief reasonably may be held by reasonable men. If the law encountered no other objection than that the means bore no relation to the end or that they cost too much, I do not suppose that anyone would venture to say that it was bad. I agree, of course, that a law answering the foregoing requirements might be invalidated by specific provision of the Constitution. For instance, it might take private property without just compensation. But in the present instance the only objection that can be urged is found within the vague contours of the Fifth Amendment, prohibiting the depriving any person of liberty or property without due process of law. To that I turn.

The earlier decisions upon the same words in the Fourteenth

<sup>31</sup>Adapted from a dissenting opinion in the case of *Adkins v. Children's Hospital of the District of Columbia*, 261 U.S. 567 (1923). In addition to Mr. Justice Holmes, Chief Justice Taft and Mr. Justice Sanford dissented. Mr. Justice Brandeis took no part in the case.



Amendment began within our memory and went no farther than an unpretentious assertion of the liberty to follow the ordinary callings. Later that innocuous generality was expanded into the dogma, Liberty of Contract. Contract is not specially mentioned in the text that we have to construe. It is merely an example of doing what you want to do, embodied in the word "liberty." But pretty much all law consists in forbidding men to do some things that they want to do, and contract is no more exempt from law than other acts. Without enumerating all the restrictive laws that have been upheld I will mention a few that seem to me to have interfered with liberty of contract quite as seriously and directly as the one before us. Usury laws prohibit contracts by which a man receives more than so much interest for the money that he lends. Statutes of frauds restrict many contracts to certain forms. Some Sunday laws prohibit practically all contracts during one-seventh of our whole life. Insurance rates may be regulated.

I confess that I do not understand the principle on which the power to fix a minimum for the wages of women can be denied by those who admit the power to fix a maximum for their hours of work. I fully assent to the proposition that here as elsewhere the distinctions of the law are distinctions of degree, but I perceive no difference in the kind or degree of interference with liberty, the only matter with which we have any concern, between the one case and the other. The bargain is equally affected whichever half you regulate. *Muller v. Oregon*, I take it, is as good law today as it was in 1908. It will need more than the Nineteenth Amendment to convince me that there are no differences between men and women, or that legislation cannot take those differences into account. I should not hesitate to take them into account if I thought it necessary to sustain this act.

This statute does not compel anybody to pay anything. It simply forbids employment at rates below those fixed as the minimum requirement of health and right living. It is safe to assume that women will not be employed at even the lowest wages allowed unless they earn them, or unless the employer's business can sustain the burden. In short, the law in its character and operation is like hundreds of so-called police laws that have been upheld. I see no greater objection to using a board to apply the standard fixed by the act than there is to the other commissions with which we have become familiar, or than there is to the requirement of a license in other cases. The fact that the statute warrants classification, which like all classifications may bear hard upon some individuals, or in exceptional cases, notwithstanding the power given to the board to issue

a special license, is no greater infirmity than is incident to all law. But the ground on which the law is held to fail is fundamental and therefore it is unnecessary to consider matters of detail.

The criterion of constitutionality is not whether we believe the law to be for the public good. We certainly cannot be prepared to deny that a reasonable man reasonably might have that belief in view of the legislation of Great Britain, Victoria, and a number of the states of this Union. The belief is fortified by a very remarkable collection of documents submitted on behalf of the appellants, material here, I conceive, only as showing that the belief reasonably may be held. In Australia the power to fix a minimum for wages in the case of industrial disputes extending beyond the limits of any one state was given to a court, and its President wrote a most interesting account of its operation. If a legislature should adopt what he thinks the doctrine of modern economists of all schools, that "freedom of contract is a misnomer as applied to a contract between an employer and an ordinary individual employec," I could not pronounce an opinion with which I agree impossible to be entertained by reasonable men. If the same legislature should accept his further opinion that industrial peace was best attained by the device of a court having the above powers, I should not feel myself able to contradict it, or to deny that the end justified restrictive legislation quite as adequately as beliefs concerning Sunday or exploded theories about usury. I should have my doubts, as I have them about this statute—but they would be whether the bill that has to be paid for every gain, although hidden as interstitial detriments, was not greater than the gain was worth: a matter that it is not for me to decide.

## G. THE FAMILY LIVING

### 274. The Economic Status of the Family<sup>32</sup>

BY ELEANOR F. RATHBONE

I doubt whether there is any subject in the world of equal importance that has received so little serious and articulate consideration as the economic status of the family—of its members in relation to each other and of the whole unit in relation to the other units of which the community is made up. I say "articulate consideration" because what appears haphazard in our present arrangements for the family is probably the result of more deliberate purposing and choosing than appears on the surface, but it has been a subconscious and therefore inarticulate purpose and choice.

<sup>32</sup>Adapted from *The Disinherited Family: A Plea for the Endowment of the Family*, pp. vii-x. Copyright by Edward Arnold & Co., 1924.

If the reader doubts it, let him consider any of the other units or classifications that have to be taken into account in framing the economic structure of society, that is, in providing material means for its maintenance—capital and labor; rent, profits, and wages; production and distribution; collective and private enterprise, and so forth. Not one of them but has been the subject, in general and in detail, of a never ending stream of writing among economists, industrial experts, politicians, and pressmen. The family too has, of course, been written about—as a problem of population by Imperialists; of breeding by eugenists; in relation to endless problems of health, housing, and child welfare. But of the family as an economic unit—something which has its own claim, based on its own value to the nation, to its own share in the nation's wealth—there has been next to no consideration at all. The claim has been not so much disparaged as ignored. In saying this I do not forget the work, to which this book itself owes much, of the sociologists and labor leaders who plead for the claim of the wage-earner to a "living wage" based on the needs of a family. But unfortunately their plea assumes acceptance of a supposition which it is one of the main objects of this book to refute—that all men are heads of families and that all families are of the same size, or rather can justifiably be assumed to be so for the purpose of regulating wages. As I shall try to show, this fiction bears so little relation to the real facts that the attempt to base a wage system upon it inevitably breaks down. Or rather it does worse than break down. It exerts just enough pull on the industrial machine to drag it off the high road of a remorseless but efficient commercialism into a morass of confused thinking and frustrated humanitarian purpose.

Further, those who have put forward this theory of the "living wage" regard the family not as it really is—an aggregate of individual human beings, each with an actual or potential value to the community—but as "the dependents" of the wage-earner. The very word suggests something parasitic, assessor, nonessential. A wife and children, and the wherewithal to keep them, are conceded to the wage-earner as though they were part of the "comforts and decencies promotive of better habits" for which he may reasonably ask as necessary to his development as a full human being. But if he prefers to use the margin thus allowed him for breeding pigeons or racing dogs or for some other form of personal gratification, instead of for keeping a family, that is assumed to be his affair, not the state's or his employer's. His wages are his remuneration, earned by the sweat of his brow or the travail of his brain, and how he spends them is no one's business but his own.

Yet when we are considering society from any other point of view than the economic, we can all see well enough that, of all its institutions, the family is after all the institution that matters most. It is at once indispensable as a means to all the rest and, in a sense, an end in itself. Pluck from under the family all the props which religion and morality have given it, strip it of the glamor, true or false, cast round it by romance, it will still remain a prosaic, indisputable fact that the whole business of begetting, bearing, and rearing children is the most essential of all the nation's businesses.

It being so generally recognized that the well-being of the family concerns the community as a whole, there seems something strange in the assumption so commonly made, that the question of the maintenance of families concerns only individual parents and can be safely left to them; or that, at most, society need only take cognizance of the matter by, as it were, mixing a little philanthropy with its business and influencing employers to pay wages which will enable their male employees to indulge in the praiseworthy leisure-time occupation of keeping families. The mere magnitude of the economic problem involved might have preserved it from so haphazard a treatment. When we remember that wives and dependent children constitute nearly half of the entire population, surely it is worth considering whether the problem of rationing this vast National Reserve cannot be solved in a more economic and efficient fashion than through the above-mentioned conception of "a living wage," based on the needs of a family, and ladled out indiscriminately to all male wage-earners of average capacity and industry.

### 275. Woman's Appointed Station<sup>23</sup>

BY HENRY EDWARD CARDINAL MANNING

The Encyclical then, in a few sympathetic words, treats of the employment of women and children. Of women it says: "They are not suited to certain trades: for woman is by nature fitted for home work, and it is that which is best adapted at once to preserve her modesty, and to promote the good bringing-up of children and the well-being of the family."

As we read these words, the chainmakers of Cradley Heath, the pit-brow women of the mines, and the mothers in our factories rise before us. Here is a moral case to be solved. A woman enters for life into a sacred contract with a man before God and the altar, to fulfil to him the duties of wife, mother, and head of his home. Is

<sup>23</sup>From a review of *Pope Leo's Encyclical on the Condition of Labor*, in the *Dublin Review*, July, 1891. Reprinted in John A. Ryan and Joseph Husslein, *The Church and Labor*, 159-76.

it lawful for her, even with his consent, to make afterwards a second contract for so many shilling a week with a mill owner, whereby she becomes unable to provide her husband's food, train up her children, or do the duties of her home? It is no question of the lawfulness of gaining a few more shillings for the expenses of a family, but of the lawfulness of breaking a prior contract—the most solemn between man and woman.

No arguments of expediency can be admitted. It is an obligation of conscience to which all things must give way. The duties of home must first be done, then other questions may be entertained. Till then nothing. Some people seem to think that our statute law is of high perfection, because it forbids mothers to return to work for three weeks or a month after childbirth. By a higher law, the law of nature, the whole care and time of the mother are due to the child; a mother's instincts ought to prevail over all lower motives. There can be no home where a mother does not nurture her own infant; and where there is no home, there is no domestic life, and where the domestic life of a people is undermined, their social and political life rests on sand.

To this it will be answered: that without the mother's earnings the children would not be fed. To this there are many answers. The minimum of wages would suffice, if the relations of capital and labor were even just; much more, if generous. Already men have complained that employers prefer the cheaper work of women, and women are finding that employers prefer the cheaper work of children. It is the old formula of modern political economy, "sell in the dearest market, and buy in the cheapest." What is cheaper than the work of women and half-timers? A normal state of wage earning would put back every wife into her home in the midst of her children.

#### 276. Women and Family Support<sup>34</sup>

The importance of the part played by women in the industrial life of the country is becoming an accepted fact even among those whose acquaintance with industrial conditions is of the most casual sort. That there are more than eight and a half million women gainfully employed in the United States and that of every four workers one is a woman are figures which indicate somewhat the extent to which women have become an essential factor in a sphere formerly considered to be not theirs. Few people know what many important investigations have shown—that although a very large

<sup>34</sup>Adapted from "The Share of Wage-earning Women in Family Support," *Bulletin of the U.S. Women's Bureau*, No. 30 (1923), pp. 1-2, 12-22.

majority of wage-earning women live at home their earnings are of more than incidental importance to themselves and to society as a whole, since a great number of these women contribute all their earnings to their families. Few people realize that the single woman who works is often the chief breadwinner for her family, and that almost every married woman wage-earner is working to supplement her husband's inadequate earnings and is turning over her entire wage to help out with the family expenses. And almost no one appreciates the fact that many families get as much financial help from daughters as from sons.

It is difficult to say why this aspect of the question of women's employment is so seldom recognized, for as far back as the days of Solomon there were those who bore testimony to the industrial character of women's work. "She maketh fine linen and selleth it; and delivereth girdles unto the merchant" was a statement of conditions which were probably not unusual even in those days.

Women have been granted a certain status as integral and necessary factors in industry, yet even so their recognition has been qualified by restricted opportunity and a generally lower wage rate than that given to men. In spite of many advances in earning capacity and opportunity the industrial status of women is still subsidiary to their home status, and there is little knowledge of the extent to which the two are interdependent. Shortly after the recent war it seemed that women had won a permanent place for themselves among the wage-earning citizens of the country; and yet it took only a few months of unemployment, with both men and women losing their chances to earn, for a general hue and cry to be raised against the retention of women on jobs which might be filled by men.

Contributing all earnings to the family fund is a very general practice among wage-earning women. Of course, such a contribution may mean much or may mean little to the family, depending upon the size of the earnings and the size of the family income, but the extent of this practice is of great significance to the wage-earning women themselves. No matter how small or how large the earnings, contributing all to the family means a cessation of economic independence, and this seems to be a condition with which many wage-earning women are faced. More than one-half of the women for whom this matter was considered reported that they contributed all their earnings to their families.

A more detailed examination of the figures on contributions and family relationship has shown that they must be considered separately for three groups—married women, single women living at home, and single women not living at home.

1. *Married women.*—Of all the women interviewed in the Manchester study who were married with husbands at work, practically every one contributed all her earnings to her family. This contribution was made irrespective of the amount of earnings or of the size of the family income. In their economic relationship to the family the married women played on the whole a minor part. In Manchester only 15.4 per cent of the women interviewed were wives and mothers, but in those families which had wage-earning wives the incomes were small, 85 per cent of the husbands earnings less than \$1,500 during the year. Nevertheless, in the Manchester families where married women were employed it was found that the earnings of the married women although they were small were by no means of inconsiderable value to the family. In the majority of the families where married women were wage-earners there were one or more dependents to be supported. In the discussion of the sources of family earnings much the same situation in regard to the share played by married women in family support is found to exist. Only 11.2 per cent of the families studied had an income from the wives' earnings. When the amount of their contribution is studied in relation to the family income it is found that in 87 per cent of the cases the wife earned and contributed less than 20 per cent of the family income.

In examining the status of married women who are wage-earners it is important to bear in mind one major qualification of all figures relating to them. This is that the work of married women as wage-earners is usually subsidiary to their work in the home and that for the most part these women, even though they may be making only a small financial contribution, are economically important factors when this contribution is added to the value of their activities in doing housework and keeping up the home.

2. *Single women.*—Single women form a large majority of woman wage-earners, and the figures relating to their contributions to the family have a broad significance. The Manchester study showed that the contributions of single women were important in relation both to the size of their earnings and to the family income. Of the women included in the Manchester investigation 67.8 per cent were daughters living with their parents, and from this group the findings on the contributions made to the family are significant. All of their earnings were contributed to their families by 59.9 per cent of these daughters, and about 30 per cent of them had contributed all earnings for more than five years.

The single woman's economic relationship to her family is more clearly outlined in the data available than is the actual contribution

in relation to her wage. In Manchester 77.8 per cent of the daughters contributed less than 30 per cent of the family budget, and 22.2 per cent contributed 30 per cent or more. The cost-of-living study showed that in 67.8 per cent of the families the daughters were contributing less than 30 per cent of the family income.

3. *Single women not living at home.*—One investigation showed that of women who lived independently slightly more than one-fifth contributed some of their earnings to needy relatives, and that the average contribution made by them amounted to 29.1 per cent of their average weekly earnings. Another investigation showed that almost one-fifth of the women who were living independently were helping relatives.

The earnings of the men and women in the present studies were not comparable in any way. Selected groups of men and women which were comparable in other respects showed such a great disparity in earnings as almost to invalidate any deductions which might have been drawn on a basis of other similarities. Of the men 44.9 per cent earned \$25 or more a week, of the women only 1.6 per cent earned \$25 or more. Only about one-fourth (26.1 per cent) of the women who were daughters received \$17.50 or more, while of the men who were sons nearly two-thirds had such earnings. Of the fathers, 60.8 per cent received \$25 or more, while only 1.8 per cent of the mothers received as much as \$25 a week. Year's earnings showed the same conditions, with only 11 per cent of the women but 61.6 per cent of the men receiving \$1,000 or more during the year.

This great discrepancy in earnings was not due to more irregularity at work on the part of women than on the part of men, for very much the same differences were found for men and women who had worked the year through. The women lost considerably more time than the men did, but the reasons for losing time were practically the same for both sexes. The women stuck to the same jobs throughout the year investigated just as generally as the men did, but on the whole the women had had considerable less experience than the men in the trade and occupation.

It would be obviously unfair to compare the contributions to the home of all wage-earning men, the majority of whom are married, with those of all wage-earning women, the majority of whom are single; and it would be equally misleading to discuss together the proportion of earnings contributed by men with high earnings and those of women with low earnings. In considering these questions the subject resolves itself into a few simple divisions. In most families there were man and woman wage-earners who were jointly responsible for the economic support of the family.



On the whole, the men contributed more than the women. A larger proportion of men than of women contributed all their earnings, and a larger proportion of men than of women contributed more than \$10 a week. However, when the two factors which mainly qualify contributions are considered, earnings and family relationship, the findings are quite different. Although the men contributed much larger amounts, in relation to the size of their earnings the contributions of the two sexes were of practically the same proportion. In every group of men and women earning from \$13 to \$20 a week, there was a larger proportion of women than of men who contributed all earnings.

In two groups of men and women who were alike in the size of their earnings and in their family relationship, the women contributed all their earnings to a greater extent than did the men. In general, contributions became more extensive as the contributors of both sexes became older. In every age group, however, more daughters than sons contributed all earnings. Comparing single men and single women, the women contributed more extensively, both actually and relatively. Comparing married men and women, relatively to their earnings, the two sexes contributed the same proportion—practically all. Actually, however, the married men contributed larger amounts than did the married women.

Although their findings cannot be considered to be final, in all of these reports one conclusion is inescapable. It is that in general women are wage-earners not only for their own entire support but to meet a very definite responsibility as sharers in the support of others or the maintenance of higher standards of living in their families. The burden of responsibility assumed by women is very different than that of men. It is older people who look to women for assistance and support, and usually there is no alternative for the wage-earning woman who falls heir to responsibilities not of her own choosing. On the other hand, the man is usually responsible for a young and rising generation, whose support he has undertaken deliberately and whose burden becomes lighter as the years advance. These differences are natural and unavoidable, but they emphasize the necessity for a clearer understanding and a more equitable valuation of the wage-earning woman as an economic factor in the family.

### 277. The Mythical Family of Five<sup>35</sup>

BY ELEANOR F. RATHBONE

The doctrine of the living wage has found its way into popular acceptance, though in a vague and rough-and-ready form. It has

<sup>35</sup>Adapted from *The Disinherited Family: A Plea for the Endowment of the Family*, pp. 14-21. Copyright by Edward Arnold & Co., 1924.

gradually come to be assumed almost without discussion that a trade in a healthy condition should, under normal circumstances, yield to full-time men workers of average efficiency not only enough for their own maintenance, but for that of their wives and children.

I propose to examine this conception of a living wage and ask certain questions about it. How far does it correspond to the facts as to the actual size of workmen's families? What proportion of workers would, under such a standard, have their living needs exactly met and what proportion would enjoy a surplus or suffer from a deficiency?

First, then, how far does the conception fit the facts? The reply is that a family consisting of husband, wife, and three dependent children is in fact one of the smallest groupings. This may be seen from the following table, which is based on the materials compiled by Dr. Bowley for use in his book *Livelihood and Poverty*.<sup>36</sup> The number of working-class men earners about whom particulars were obtained was 13,475, representing by sample a total number of 448,000. It will probably be agreed that such a sample is sufficiently large in quantity and representative in quality to be taken as indicative of the whole. Assuming this to be so it shows that, of men workers over twenty in England, roughly speaking,

27 per cent are bachelors or widowers without dependent children  
 24.7 per cent are married couples without children or with no dependent child below fourteen.  
 16.6 per cent have one dependent child.  
 13 per cent have two dependent children.  
 8.8 per cent have three dependent children.  
 9.9 per cent have more than three dependent children.

These figures include the households where there is more than one wage-earner, e.g., a wife or child over fourteen working. If the households be taken which consist solely of husband, non-earning wife, and three dependent children, the proportion is still smaller. Dr. Bowley found that "a household so constituted only occurs in 56 households per thousand in the skilled group, in 52 per thousand in the unskilled." So much for the claim of this type of household to be described as normal, standard, average, or typical!

Ignoring the possibility of a second wage-earner, it follows from the above table that "a living wage" based on the needs of the five-member household might be expected to be just adequate in about one household in eleven; it would be less than adequate in one household in ten; it would leave a margin in about four households out of five.

It is clearly unsatisfactory, assuming that minimum wages are

<sup>36</sup>A. L. Bowley and A. R. Burnett-Hurst, *Livelihood and Poverty*. G. Bell & Sons, 1915.

to be based on the needs of the worker, that the basis chosen should be the needs of five persons, merely because half the families concerned will consist of this number at some time or other. The "human needs" of a family are its present needs, not its past nor its future needs, and as we have already seen, the five-member basis fits the present needs of about one family in eleven, not one in two.

The theory of a uniform family wage to fit the facts can be found in the following calculations:

Assuming that the number of adult male wage-earners in the United Kingdom was about 8,000,000 in 1911 and that they have since increased in proportion to the increase of population, the number may now be taken as approximately 8,360,000. According to the 1911 Census there were roughly 10,250,000 men over twenty and 6,500,000 wives in the total population. If we assume that the proportion of married couples is approximately the same among the working classes, the number of wage-earners' wives would in 1921 be about 5,300,000. The number of children is about 9,500,000 or 10,000,000 according to the figure taken as to the average number of children per man. To pay every man on the basis of the five-member family wage would mean providing for a population of 8,360,000 men, 8,360,000 wives, and 25,080,000 children. Under such an arrangement provision would be made for 3,000,000 phantom wives, and for over 16,000,000 phantom children in the families containing less than three children, while on the other hand, in families containing more than three children, those in excess of that number, over 1,250,000 in all, would still remain unprovided for.

The provision for phantom wives may I think be defended on the ground that a man who has not a wife to keep has to pay someone to do his cooking, washing, and housekeeping for him, whether it be a landlady, a mother, or some other woman relative. But considering the provision for children, we arrive at the surely amazing result that if the efforts of trade unionism were successful in securing—as they have certainly not secured at present—the payment of "a living wage" based on the needs of a five-member family as a minimum to every male worker of twenty years and over, and if no one received more than the minimum, we should in fact be providing in the nation's wage-bill full rations for over 16,000,000 phantom children while we provided inadequate rations for 1,250,000 of the real children. Further, out of the total of 9,500,000 or 10,000,000 children, over 5,000,000 (54 per cent) would be insufficiently fed and clothed for five or more years sometime in the period between birth and leaving school.

It should be noted that these figures do not furnish any argument

against the doctrine of a living wage, but only against a living wage based on the needs of a uniform family. Any system of wage, whether consciously influenced by family needs or not, must inevitably be either wasteful or socially disastrous so long as it is the only means of providing for families, yet does not adjust itself to their varying sizes. This would only cease to be true in a community so wealthy that it could afford to provide for everyone on the scale adequate to the needs of the largest size of family. During the Great War, the problem of the moment was to make not the money income of the nation but its food supply go round. Suppose that the food controller had dealt with this problem by assuming that every man over twenty was the head of a family of five and that every woman had only herself to keep and had issued his food cards accordingly? What would have been thought of the economy and equity of such an arrangement and how long would the ministers responsible for it have remained in office?

#### 278. The Living Wage in Practice<sup>37</sup>

##### a) *The Promise*

BY RT. HON. W. M. HUGHES

If we are to have industrial peace we must be prepared to pay the price, and that price is justice to the worker. Nothing less will serve. We have long ago adopted in Australia the principles of compulsory arbitration for the settlement of industrial disputes and of the minimum wage.

The cause of much of the industrial unrest, which is like fuel to the fires of Bolshevism and direct action, arises with the real wage of the worker—that is to say, the things he can buy with the money he receives. This real wage decreases with an increase in the cost of living. Now, once it is admitted that it is in the interests of the community that such a wage should be paid as will enable a man to marry and bring up children in decent, wholesome conditions—and that point has been settled long ago—it seems obvious that we must devise better machinery for insuring the payment of such a wage than at present exists. Means must be found which will insure that the minimum wage shall be adjusted automatically, or almost automatically, with the cost of living, so that within the limits of the minimum wage at least the sovereign shall always purchase the same amount of the necessities of life.

The government is, therefore, appointing a Royal Commission to

<sup>37</sup>*Report of the Royal Commission on the Basic Wage (Australia, 1920), pp. 7-8.*

inquire into the cost of living in relation to the minimum or basic wage. The Commission will be fully clothed with power to ascertain what is a fair basic wage and how much the purchasing power of the sovereign has been depreciated during the war; also how the basic wage may be adjusted to the present purchasing power of the sovereign, and the best means when once so adjusted of automatically adjusting itself to the rise and fall of the sovereign. The government will at the earliest date possible create effective machinery to give effect to these principles. Labor is entitled to a fair share of the wealth it produces. The fundamental question of the basic wage having been thus satisfactorily—because permanently—settled, there remain other causes of industrial unrest which must be dealt with if we are to have industrial peace.

*b) Instructions to the Committee*<sup>38</sup>

The Commission was to inquire into

1. The actual cost of living at the present time, according to reasonable standards of comfort, including all matters comprised in the ordinary expenditure of a household, for a man with a wife and three children under fourteen years of age, and the several items and amounts which make up that cost;
2. The actual corresponding cost of living during each of the last five years;
3. How the basic wage may be automatically adjusted to the rise and fall from time to time of the purchasing power of the sovereign.

*c) The Result*<sup>39</sup>

Items contained in the model budget of the *Report of the Australian Royal Basic Wage Commission*.

HOUSING

Rental ordinarily paid by the tenant of a five-room house in sound tenable condition; not actually cramped as to allotment; situated in decent surroundings; and provided with bath, copper, and tubs. The rent of such a house in Melbourne was in November, 1920, found to be £1 os. 6d. per week.

CLOTHING

*Husband*.—Suits, 2 to last 3 years; hat, 1 a year; socks, 6 a year; ties, 2 a year; braces, 1 best to last 3 years, and another to last 1

<sup>38</sup>*Report of the Royal Commission on the Basic Wage* (Australia, 1920), pp. 8, 14.

<sup>39</sup>A. B. Piddington, *The Next Step* (1920), pp. 7-9.

year; shirts, 4 working to last 1 year, and 5 best to last 3 years; flannels, 2 a year; underpants, 2 a year; collars, 6 a year; handkerchiefs, 6 a year; pyjamas, 3 to last 2 years; working trousers, 2 a year; overcoat, 1 to last 4 years; umbrella, 1 to last 3 years; boots, 1 best to last 2 years; and 3 working to last 2 years; shoes, 1 to last 2 years; boot repairs, 3 a year; sundries. The cost at November prices was 8s. 5d. per week.

*Wife.*—Hats, best, 2 to last 2 years, and another to last a year; costume, winter, 1 to last 3 years, and summer, 1 to last 3 years; skirt, blue serge, 1 to last 3 years, tweed, 1 to last 2 years; blouse, silk, 1 to last 2 years, voile, 1 a year, cambric, 3 to last 2 years, winceyette, 3 to last 2 years; canisoles, 4 a year; combinations, 4 to last 2 years; undervests, woolen, 1 to last 2 years, cotton, 3 to last 2 years; bloomers, winter, 2 to last 2 years; nightdresses, 4 to last 2 years; underskirts, white, 1 to last 3 years, moreen, 1 to last 3 years; corsets, best, 1 to last 2 years, and another to last a year; dressing gown, 1 to last 3 years; aprons, 4 a year; stockings, cashmere, 3 a year, cotton, 3 a year; handkerchiefs, 6 a year; gossamer, 1 a year; veil, 1 a year; gloves, silk, 1 a year; cotton, 1 a year; top coat, 1 to last 4 years; golfer, 1 to last 3 years; umbrella, 1 to last 3 years; shoes, best, 1 a year, second, 1 a year; slippers, 1 a year; repairs, best 1 a year, second 1 a year; sundries. The cost at November prices was 10s. 9d. per week.

*Boys, 10½ years.*—Overcoat, 1 to last 3 years; suits, 2 to last 2 years; pants, 4 to last 2 years; jersey, 1 to last 2 years; summer coat, 2 to last 2 years; shirts, 4 a year; stockings, 4 a year; caps, 1 a year; straw hat, 1 to last 2 years; soft hat, 1 a year; handkerchiefs, 6 a year; braces, 1 a year; ties, 2 a year; singlets, 4 to last 2 years; pyjamas, 3 to last 2 years; boots, best, 1 a year, school, 2 a year; repairs, 2 a year; collars, 3 a year. The cost at November prices was 4s. 6d. per week.

*Girl, 7 years.*—Singlets, 2 to last 2 years; stays, 2 a year; bloomers, cotton, 2 a year, woolen, 1 to last 2 years; petticoats, 2 to last 2 years; dresses, best, 1 a year, voile, 1 a year, print, 2 a year; jersey, 1 to last 2 years; hats, 2 a year; cap, 1 a year; pyjamas, 2 to last 3 years; socks, 4 a year; handkerchiefs, 6 a year; top coat, 1 to last 3 years; boots, best, 2 to last 3 years, school, 3 to last 2 years; repairs, 2 a year; sundries. The cost at November prices was 3s. 5d. per week.

*Boy, 3½ years.*—Overcoat, 1 to last 3 years; suits, light, 1 to last 2 years, heavy, 1 to last 2 years; pants, 1 a year; jersey, 1 to last 2 years; blouse coat, 2 to last 2 years; shirts, 2 a year; stockings, 4 a year; cap, 1 to last 1½ years; handkerchiefs, 3 a year; braces, 1 a year; singlets, 2 a year; nightshirts, 2 a year; boots, best, 1 a year;

shoes, 2 a year; collars, 2 a year; boot repairs, 1 a year. The cost at November prices was 1s. 11d. per week.

## FOOD

*Husband, wife, boy (10½ years), girl (7 years), and boy (3½ years), per week.*—Bread 20 lbs., flour 3 lbs., oatmeal 1½ lbs., rice ½ lb., sago and cornflour ½ lb., eggs 1 doz., milk 7 qts., sugar 5½ lbs., jam 2 lbs., treacle ½ lb., butter 2 lbs., beef 8 lbs., mutton 4 lbs., fish 2 lbs., bacon ½ lb., fruit (fresh) 8 lbs., raisins ¼ lb., currants ¼ lb., potatoes 11 lbs., onions 1½ lbs., vegetables 8 lbs., tea ½ lb., coffee ¼ lb. The cost at November prices was £2 6s. 1½d. per week.

## MISCELLANEOUS ITEMS

*Husband, wife, boy (10½ years), girl (7 years), and boy (3½ years), per week.*—Fuel, 1½ cwt. wood; lighting, 1s.; groceries (not food), 1s. 6d.; renewals of household utensils (general and cooking), 6d.; renewals of household drapery, etc.: 1 pair D.B. blankets, to last 15 years; 2 pairs S.B. blankets, to last 15 years; 1 D.B. quilt, to last 15 years; 2 S.B. quilts, to last 10 years; 1 pair D.B. sheets, to last 2 years; 2 pairs S.B. sheets, to last 2 years; 5 pillow slips a year; 3 towels a year; 1 tablecloth, to last 5 years; 5 serviettes, to last 5 years; 2 pairs window curtains, to last 4 years; renewal of household crockery, glassware, and cutlery, 4½d.; union dues, 6d.; lodge dues, 1s. 3d.; medicine, dentist, etc., 9d.; domestic assistance, 1s. 6d.; newspapers, stationery, and stamps, 1s.; recreation, amusements, and library, 2s.; smoking, 2s.; barber, 3d.; fares, 2s. 6d.; school requisites, 3d. The cost at November prices was £1 os. 10½d. per week.

TABLE I

TOTAL COST OF LIVING, MELBOURNE, NOVEMBER, 1920

	£	s.	d.
Rent.....	1	0	6
Food.....	2	6	1½
Clothing.....	1	9	0
Miscellaneous.....	1	0	10½
	£5	16	6

d) *A Judgment*<sup>40</sup>

BY ELEANOR F. RATHBONE

In studying this mass of detail, it is impossible I think for the observer, especially perhaps for the woman observer, not to be struck

<sup>40</sup>Adapted from *The Disinherited Family: A Plea for the Endowment of the Family*, p. 176. Copyright by Edward Arnold & Co., 1924.

with two things: first, the immense pains expended by the Commission in carrying out their task as thoroughly and impartially as possible; secondly, the extraordinary artificiality and futility of the uniform family standard as shown up by their findings. It is really touching to think of those seven men—the three representatives of the great bodies of employers in Australia and the three representatives of its federated unions and the distinguished lawyer who presided—considering whether the supposititious wife of the typical Australian workman should be allowed six blouses a year (two silk, two voile, and two cambric or winceyette) as claimed by the federated unions; or only three (one silk, one voile, one cambric or winceyette) as suggested by the employers; and finally deciding on a just compromise which allows to the garment of each material its appropriate length of service, and so on through all the innumerable articles of clothing, diet, and utensils required for every member of the imaginary household.

### 279. The Movement for Family Wages<sup>41</sup>

BY MARY T. WAGGAMAN

An examination of certain foreign economic, industrial and labor publications discloses a somewhat surprising amount of material on the subject of family allowances or supplementary wages sometimes termed "family wages" or "social wages." This material includes reports of national labor departments and also of committees and commissions of inquiry, representing, respectively, labor and industrial interests.

The striking progress abroad of the system of family allowances challenges attention not only because the new movement is apparently another turn in the evolution of social and industrial insurance but because of the very close correlation of these grants with wages. For despite the multiplied declarations that family allowances must be clearly differentiated from the worker's compensation for his labor, the new practice seems to point to potential changes in the manner of making wage adjustments and to suggest, though as yet obscurely, a solution to some of the most impenetrable wage problems.

1. *France*.—The development of the system of compensation funds in France for the payment of so-called "family wages" surpasses that of any other country, according to the director of the central committee for family allowances.

<sup>41</sup>Adapted from "Expansion of the Family-Wage System in France and Belgium, and Family-Wage System in Germany and Certain Other European Countries," *Monthly Labor Review*, Vol. XVII, No. 4, pp. 1-2, 10, 13; Vol. XVIII, No. 1, pp. 20-29.



This new movement, he declares, is based on equity and meets a national need in the grave depopulation crises when the average birth-rate does not exceed 0.4 of a child per worker. He regards the progress of the institution as an "eloquent manifestation of the vitality of a people" and an evidence of the "creative and generous spirit of the French employers." This generosity, however, is not without advantages to those who exercise it. In assisting the heads of families, employers encourage the recruiting of necessary manual labor and promote its stabilization. Moreover, some optimistic industrialists hope by contributing to the physical and mental development of the children of their workers to create a superior labor reserve for the future.

A law was passed on July 22, 1923, providing an annual allowance of 90 francs for each child under thirteen years of age in excess of three children in French families. The allowance may be granted up to sixteen years of age if the children are still in school, apprenticed, "invalided, or incurably ill." The departments or communes may increase these national grants from their own funds.

Even before the war certain public agencies, large transportation companies, and important financial, industrial, and commercial establishments in France were also paying special allowances to the members of their personnel who had very young children or children who had not reached the working age. During the war the practice of granting these allowances was substantially extended, being taken up not only by additional individual employers but by groups of employers in the same industry or the same locality who formed compensation funds for the payment of these allocations.

There are now 123 of these funds, which include a membership of over 7,600 undertakings. It is estimated that 2,500,000 employees in France are entitled to benefit by family allocations through compensation funds or otherwise, and that the annual amount of such grants is over 300,000,000 francs.

2. *Belgium.*—The subject of family allowances has recently been attracting much attention in Belgium among industrial organizations and economic groups.

During the war, in order to lessen the pressure of the high cost of living, public administrations in Belgium adopted the practice of paying family allowances to their personnel, and seven or eight years ago such grants were being made in a few private undertakings of the country, especially in its coal-mining districts.

In 1921 the first compensation fund was set up at Verviers. The next year the movement for the establishment of such funds advanced considerably, and in the early part of 1923 embraced various indus-

tries in all sections of the country, while still larger plans for the development of the system were being formulated by industrial leaders.

It is estimated that there are from 225,000 to 250,000 workers and employees in Belgium "living under the régime of family allowances."

3. *Germany*.—Although there are very few industries in Germany that have instituted family allowances in all establishments, there are no industries that have wholly ignored this method of payment.

Sometimes the family allowance takes the form of a higher wage rate and at other times the form of a supplement to the basic wage. The first and somewhat cruder scheme provides a higher compensation for married workers, generally without regard to the number of children they may have. This plan was followed in the collective agreement for the German printing trade, in which there was a classification of skilled workers, according to their trade, local class, age, and marital condition.

The so-called social wage is often paid in such a way that only the younger married workers are better off than their coworkers of the same age because, according to this scheme, beginning with a certain age married and single workers receive the same compensation.

Several collective agreements provide the same basic wage for both single and married workers, while the cost-of-living bonus varies. As a rule, however, under the family-wage system married workers do not receive higher wage rates but grants supplementing the wage based on performance. While these grants are sometimes based on a fixed percentage of the wage of individual workers, they are much more frequently granted in specific amounts, which in some collective agreements vary with the local cost of living. Such family allowances generally consist of two parts—a household allowance and an allowance for the children. In some collective agreements only children's allowances are provided.

A household allowance is granted a married worker on the ground of additional expense. In cases where the wives are wage-earners, the allowances are reduced or not paid at all.

4. *Austria*.—The Austrian law of December, 1921, regarding the abolition of state food subsidies, provided for universal family allowances. Long before this date, however, employers in certain industries, among them engineering and metal working, had instituted a system of allowances for dependent children. Although the greater part of the above-mentioned act expired October 15, 1922, one of the remaining clauses provided for the continuance of the children's allowances until a children's insurance act should be passed. According to Industrial and Labor Information (Geneva) of February 16, 1923,

the government ordered that these allowances, amounting to 1,155 kronen weekly per child, be paid up to June 30, 1923.

5. *Czechoslovakia*.—Some collective agreements, notably those in coal mining, contain provisions for the payment of children's allowances.

6. *Denmark*.—Under the law of September 12, 1919, married employees in the government service in Denmark receive a higher cost-of-living bonus than single employees. These bonuses fluctuate according to percentage changes in the cost of the family budget.

7. *Netherlands*.—The question of family allowances has aroused a great deal of attention in the Netherlands. The principle of granting children's allowances was first put into practice in the Netherlands in the civil service, the system being inaugurated for the post-office employees in 1912, then extended to teachers, and in 1920 made to cover the whole civil service. Railway employees have also been accorded children's allowances by order of the government, such allowances being regulated in the same way as those granted to government employees except that they commence only with the third child.

Children's allowances have been inaugurated for the employees and officials of the majority of the municipalities and provinces. This new method of wage payment has also been established "on a fairly large scale" in private enterprises. However, the greater expense to employers who make such grants and the possibility of discrimination against applicants for work who are married or who have large families constitute two difficulties in the way of the adoption of the system by private employers. These problems have been partially solved by regulating children's allowances in collective agreements. These agreements affected approximately 2,500 establishments and 61,700 workers. There were 26,000 workers in the mining industries who were receiving allowances for their children.

8. *Sweden*.—The family-wage system has also been inaugurated by some industries in Sweden; for example, by private railways.

## H. THE HAZARDS OF THE CHILD

### 280. The Hazard of Birth<sup>42</sup>

BY CHARLES J. HASTINGS

To produce a fitter race we must begin with the germ plasm from which it is developed. Eugenists tell us that the moment conception takes place the door of parental gifts is closed. Obviously, then, if we are to develop a fit race there must not be a missing link. Where

<sup>42</sup>Adapted from "Democracy and Public Health Administration," *American Journal of Public Health*, IX (1919), 174-75.

nature ends nurture must begin. We have no say as regards the man timber out of which our ancestors were made. But we have a say and are responsible for the man timber out of which our descendants will be fashioned.

Every child has a right to be well born, born of parents who are physically and mentally sound. It should develop from a germ plasm which is free from any taint that might militate against it. If our campaign against the unduly high infant death-rate is to be efficient obviously it must begin just after conception has taken place. The necessity for this is apparent when we realize that more than one-third of the infants that die in the first year die during the first month, and from 60 to 70 per cent of these die during the first week. Consequently, if these lives are to be saved it must be by prenatal care. Here the grim monster reaps his harvest, oftentimes by a dual action, directed both against the mother and the child. If we would save the baby, we must save and protect the baby's mother.

It is well known that the infant nursed at the mother's breast has ten chances to one for life and efficient development that the artificially fed child has. Consequently our prenatal care must embrace not only the efficient piloting of the mother through her pregnancy and confinement but also care that we make it possible for her to nurse her baby.

The fact that the infant depends entirely on the mother's blood for nutrition makes it all the more imperative that the blood be kept in the best possible condition, which can only be accomplished by the efficient safeguarding of the mother's health. Where efficient prenatal care has been established, there has been a marked increase in the number of mothers nursing their babies, and the infant mortality during the first month has been reduced more than 50 per cent.

Obviously, then, prenatal care will not only secure a better and more vigorous race of infants, to start life with, but it will also save the lives of many mothers that are needlessly sacrificed at present.

### 281. The Hazard of Infancy<sup>43</sup>

BY BRUCE BLIVEN

People who are sufficiently simple always suppose that babies are the gift of God, a gift revocable at any time at his pleasure. "The Lord giveth and the Lord taketh away; blessed be the name of the Lord." As we grow more sophisticated we realize that babies die because of a complicated set of factors, a number of which can be

<sup>43</sup>Adapted from "Why Babies Die," an editorial in the *New Republic* (May 13, 1925), pp. 307-8. Copyright by the New Republic, Inc., 1925.

brought under human control. In so far as any society can choose its own conditions, a nation or a city can decide whether it will bring a large number of babies into the world merely for the purpose of keeping the gravediggers busy. It can choose whether one-half of all the children born shall die within their first year, as is the case in many parts of China, or one-fourth, as was the case in Russia and Hungary in the last "normal" pre-war year, or one in twenty as in the United States, or one in twenty-seven, the record in New Zealand.

The proportion of your babies which you allow to die is, of course, a factor of great importance in the growth of population, and all the resultant economic, diplomatic, and military consequences. If France, for example, were foolish enough really to want a rapidly growing population, she could attain it by merely taking the trouble to reduce her abnormally high death-rate, and without increasing her birth-rate.

The first careful and extended investigation of why babies die has recently been made by the United States government. Dr. Robert M. Woodbury, of the Children's Bureau, Department of Labor, has examined the deaths occurring among 23,000 children in eight widely scattered cities. The families represented include rich, poor, and every grade between; Americans and foreign-born; white and colored. His report, *Casual Factors in Infant Mortality*, just published by the Bureau, is a gold mine of facts about infant mortality and its various causes.

What are the factors which produce infant mortality? On the basis of the studies made, Dr. Woodbury discusses a number of them. Girls have a somewhat better chance to survive than boys. The second baby in a family has a slightly higher expectation than the first, but thereafter the chance of survival diminishes with each additional child; the more brothers and sisters you have, the greater the likelihood that you will die before your first birthday. This is a partial answer to optimists who are fond of naming great men who were the eleventh or fourteenth child in their respective families, and pointing out that under a birth-control system the world would have lost their services. Families as large as this do produce occasional great men; but they also produce a very much larger proportionate number of little white coffins than do smaller ones. As might be expected, the more frequent the births, the greater is the mortality rate.

Greatest of all these determining factors, however, is the economic position of the family, as determined by the father's earning power. When that is low, no combination of other good factors prevents a sharp increase in the mortality rate. When the family is well to do, all other factors making for high death-rate may be faced with comparative impunity. This difference is reflected in half-a-dozen ways. It is shown strikingly when stated in terms of housing, where poverty

means overcrowding. The infant death-rate where the family is forced to live two in a room or more is two and a half times as high as that in homes which average more than one room to each person. If mothers work at home during pregnancy the infant death-rate is larger by sixteen per thousand births than if they do no work; if they work outside the home, the number of deaths per thousand is larger by seventy-eight. Even after several other adverse factors have been discounted, the likelihood of death during the first year is 40 per cent higher if the mother is obliged to work outside the home—which is interesting when we remember that not far from 10,000,000 women are now gainfully employed in the United States.

The correlation between high mortality and actual low earnings by the father is the clearest of all. This comparison shows that the number of deaths is almost three times as high when the father's income is \$450 or less as when it is \$1,250 or more. The disparity would doubtless be greater still were it not for the fact that in the higher income group breast-feeding of infants is much less common, and that, other things being equal, a bottle-fed child is from three to four times as likely to die.

The report does not go into the equally interesting question of the effect of these conditions on the children who manage to stay alive. It is the fashion of Americans to say comfortably that poverty is good for children, that it exerts a discipline which helps develop a rugged character, and that early denial makes one enjoy the good things of life all the more when they are attained. It is true, certainly, that when poverty and the accompanying ignorance takes an excess toll of ten lives for every hundred births, above the five deaths resulting from all other causes combined, it is the children with sturdier constitutions who survive. But how satisfactorily do they survive? How many of them die after the age of one year, but before becoming adults, or shortly thereafter? And of those who do not die, how many come anywhere near approximating the standard of useful citizenship suggested by the phrase, "a sound mind in a sound body"? These are highly interesting, unanswered questions, to which it is no reply at all to cite the case of an occasional highly exceptional individual who has fought his way up from dire poverty to a distinguished personal success in the arts, a profession, or business—a success impossible under any circumstances to the average man.

## 282. The Hazard of the Family Income<sup>44</sup>

For the great body of our workers the wage system is ill adapted to the provision of opportunity for the next generation. Under it

<sup>44</sup>An editorial (1916).

the chances of the child to develop the strongest of the many latent talents with which he is endowed, to enjoy development in mind and body which will fit him for future usefulness, and to choose wisely a place for himself in the industrial system is far smaller than it should be. Even among people in moderate circumstances the capacities of children are neither fully developed nor fully utilized. Among native laborers the art of conserving the resources of childhood is not adequately understood. Among the foreign-born ignorance and lack of means usually defeat the will which would make adequate provision for the child's future.

Among the working classes parents usually know little of the industrial system which is to require the services of their children. They have no way of telling what are "blind-alley" occupations and what opportunities lead to advancement. They cannot determine what the influence of various juvenile occupations are in developing the industrial resources of the child or in robbing him prematurely of vigor of mind and body. They cannot pass intelligent judgment upon the social institutions, such as schools, religious organizations, dancing halls, and moving-picture shows, which claim the attention of the child for recreation or culture. Even if they understood quite well the whole system, industrial and social, it is not theirs to determine the capacities of the child, or to formulate a program which gives him the best preparation for the highest function in life to which his capacities entitle him. The Old World habits of thought and the simple agrarian standards of parents breaks down their authority in making for the child important decisions at ages at which the child is not old enough to decide for himself. So it is that parental responsibility is impotent under modern industrial conditions to make proper provision for the child's adult years.

But means as well as ability may keep the parent from properly providing for his child. To give the advantages necessary to future usefulness to the child imposes a double immediate cost on the parent. It forces upon them expenses incident to education of an individual who might be self-supporting; it also imposes the loss of the wage which the child could earn. Opportunities for children depend to a considerable extent upon the realization by parents of the necessity of making provision for their offspring, and upon their willingness to make the necessary self-sacrifices. But they depend even more upon the financial ability of the family to give children the necessary leisure, an opportunity that is only available provided that the father earns a sufficient amount or the mother engages in outside activities, usually to the neglect of important domestic duties.

In this connection we must note that under the peculiar arrangements of our social system, with the single exception of the meager compulsory education requirement, the responsibility for the conservation of the resources of children rests wholly upon the parents. Under our social system the opportunity of children to obtain training in excess of this minimum depends upon the financial ability of the parents. Thus a very slender thread is depended upon to connect latent resources with the opportunities which await those resources developed. If the father's income is not above the average, if the mother, because of a large family, illness, or other cause, is not able to assume part of the financial burden, opportunity is denied to any but the exceptional child. That small opportunity, too, is in danger of being swept away by any one of many of the chances which may befall one in our industrial world. If unemployment befalls, whether because of the father's unreliable habits or the mere exigencies of market conditions, the child's opportunity is usually gone. If industrial accident befall him, if the processes of "speeding up" cause him prematurely to lose his usefulness, if industrial old-age creeps upon him, it is the child who suffers. Yes, and society suffers, too, through a failure to profit by what the child might offer. Surely the industrial opportunity for the child should be made to rest upon a foundation at least as secure as that which mediaeval agriculture or chattel slavery could offer.

### 283. The Hazard of Character<sup>45</sup>

Is society so bent on indulgence, is the civilization immediately incident to such child-labor so inert, that the whole youth of the land must be placed under the strait-jacket of a Congressional law? It is this question each voter must answer for himself or herself. And in a time when youth is said to be in open revolt against old-fashioned things is there not serious danger that the already growing opposition and indifference to plain and prosaic work will be given a new impetus? How is that faith in self to be developed in an atmosphere where idleness is made lawful—and therefore, possibly, right, to the young mind?

It will avail nothing to scout the idea of rebellion against work. On the farm there is much the small boy and girl may do without detriment to health or education. Perhaps in our "progressivism" we have gone past "the chores" so much in evidence in the childhood of this generation. There is the unmistakable duty of the parent to

<sup>45</sup>Adapted from an editorial, "Youth and Character," *Commercial and Financial Chronicle* (August 23, 1924), pp. 858-59.



the child to consider. But is there not a duty of the child to the parent? If, in the changing circumstances of life, a widow's only son is required to work for pay at the age of fourteen, shall the law sustain him in refusal? And will he not become a better man, though hard this early apprenticeship, than if he elect a life of vagabondage on the streets of a city?

Certain organizations of good intent have been clamoring for this law for years because sometimes pale and wan children of the poor are found in factories. But the poor themselves who have felt the pinch of poverty in a free land have not themselves been calling for it. When necessity exists, and a child too small and too weak to work will not often be employed anywhere—for such labor is unprofitable if for no other reason—are the poor to be compensated in any way for the loss of the labor of children from fourteen to eighteen years? Why must we in our social reforms always resort to law—and are not these examples possible under the proposed amendment if the Congress shall so will in its law? Why oust the parent and the state from all control in favor of giving a new power to Congress? In many of our reforms we are already stark mad in our appeals to law. Sentiment sows to the winds and reaps the whirlwind. One would think that the children of the land are burdened with the toil of slaves and whipped to their dungeons at night. When, in fact, they have as a whole more benefits and privileges than their forbears ever dreamed of—in the good old days that are “gone forever.” The irony of the saw, “Evcrybody works but father,” does not trouble the youth of today. He must have everything culture and civilized industrialism puts in his sight, if “father” can get it for him, and grumbles and “revolts” if he has to go without.

And again, returning to the child himself. Orphaned perhaps at twelve or fourteen, he yet has in him the urge to greatness that has fired the early zeal of so many of our eminent men of today. But he may not work, for the law is against it. Mayhap the law will single out only certain occupations, but these may be the only ones available to him. In a rash impulse to help youth by our usual process of invoking law, shall we not on the contrary have harmed him? Why this unbridled power to Congress—when if we depended on a state law we might come near to it in our politics and voting? But why the law at all, and, therefore, why the amendment? Having insidiously taken away certain unalienable or inalienable rights from adult citizens, are we now to visit the same system of oppression upon youth? A national law to control the child under eighteen years of age—how can it ever meet the difficulties it must encounter in its conflict with parental authority—how can it ever compensate the boy

or girl for preventing them from accomplishing self-help and character by their own directed work?

#### 284. The Hazard of the Courts

##### a) *The First Act*<sup>40</sup>

A bill was filed in the United States District Court for the Western District of North Carolina by a father in his own behalf and as next friend of his two minor sons, one under the age of fourteen years and the other between the ages of fourteen and sixteen years, employes in a cotton mill at Charlotte, North Carolina, to enjoin the enforcement of the act of Congress intended to prohibit interstate commerce in the products of child labor.

The District Court held the act unconstitutional and entered a decree enjoining its enforcement. This appeal brings the case here. The controlling question for decision is: Is it within the authority of Congress in regulating commerce among the states to prohibit the transportation in interstate commerce of manufactured goods, the product of a factory in which, within thirty days previous to their removal therefrom, children under the age of fourteen have been employed or permitted to work, or children between the ages of fourteen and sixteen years have been employed or permitted to work more than eight hours in a day, or more than six days in any week, or after the hour of seven o'clock P.M. or before the hour of six o'clock A.M.

The power essential to the passage of this act, the government contends, is found in the commerce clause of the Constitution which authorizes Congress to regulate commerce with foreign nations and among the states.

Commerce "consists of intercourse and traffic and includes the transportation of persons and property." The making of goods and the mining of coal are not commerce, nor does the fact that these things are to be afterward shipped or used in interstate commerce make their production a part thereof. Over interstate transportation, or its incidents, the regulatory power of Congress is ample, but the production of articles, intended for interstate commerce, is a matter of local regulation.

In interpreting the Constitution it must never be forgotten that the nation is made up of states to which are intrusted the powers of local government. And to them and to the people the powers not

<sup>40</sup>Adapted from the opinion of the court in *Hammer v. Dagenhart*, 247 U. S. 251 (1918). By a vote of five to four the court held the first child-labor act unconstitutional.

expressly delegated to the national government are reserved. The power of the states to regulate their purely internal affairs by such laws as seem wise to the local authority is inherent and has never been surrendered to the general government. To sustain this statute would not be in our judgment a recognition of the lawful exertion of the congressional authority over interstate commerce, but would sanction an invasion by the federal power of the control of a matter purely local in its character, and over which no authority has been delegated to Congress in conferring the power to regulate commerce among the states.

We have neither authority nor disposition to question the motives of Congress in enacting this legislation. The purposes intended must be attained consistently with constitutional limitations and not by an invasion of the powers of the states. This court has no more important function than that which devolves upon it the obligation to preserve inviolate the constitutional limitations upon the exercise of authority, federal and state, to the end that each may continue to discharge, harmoniously with the other, the duties intrusted to it by the Constitution.

In our view the necessary effect of this act is, by means of a prohibition against the movement in interstate commerce of ordinary commercial commodities, to regulate the hours of labor of children in factories and mines within the states, a purely state authority. Thus the act in a twofold sense is repugnant to the Constitution. It not only transcends the authority delegated to Congress over commerce but also exerts a power as to a purely local matter to which the federal authority does not extend. The far-reaching result of upholding the act cannot be more plainly indicated than by pointing out that if Congress can thus regulate matters intrusted to local authority by prohibition of the movement of commodities in interstate commerce, all freedom of commerce will be at an end, and the powers of the states over local matters may be eliminated, and thus our system of government be practically destroyed.

*b) The Second Act<sup>47</sup>*

The law is attacked on the ground that it is a regulation of the employment of child labor in the states—an exclusively state function under the Federal Constitution and within the reservations of the Tenth Amendment. It is defended on the ground that it is a mere excise tax levied by the Congress of the United States under its broad

<sup>47</sup>Adapted from the opinion of the United States Supreme Court in the Child Labor Tax Case, 259 U.S. 20 (1922). The opinion is by Mr. Chief Justice Taft. Mr. Justice Clarke dissented.

power of taxation conferred by Section 8, Article I, of the Federal Constitution.

We must construe the law and interpret the intent and meaning of Congress from the language of the act. The words are to be given their ordinary meaning unless the context shows that they are differently used. Does this law impose a tax with only that incidental restraint and regulation which a tax must inevitably involve? Or does it regulate by the use of the so-called tax as a penalty? If a tax, it is clearly an excise. If it were an excise on a commodity or other thing of value, we might not be permitted under previous decisions of the court to infer solely from its heavy burden that the act intends a prohibition instead of a tax.

But this act is more. It provides a heavy exaction for a departure from a detailed and specified course of conduct in business. That course of business is that employers shall employ, in mines and quarries, children of an age greater than sixteen years; in mills and factories, children of an age greater than fourteen years; and shall prevent children of less than sixteen years, in mills and factories, from working more than eight hours a day or six days in the week. If an employer departs from this prescribed course of business, he is to pay to the government one-tenth of his entire net income in the business for a full year. The amount is not to be proportioned in any degree to the extent or frequency of the departures, but is to be paid by the employer in full measure whether he employs five hundred children for a year, or employs only one for a day. Moreover, if he does not know the child is within the named age limit, he is not to pay; that is to say, it is only where he knowingly departs from the prescribed course that payment is to be exacted. Scierter is associated with penalties not with taxes. The employer's factory is to be subject to inspection at any time not only by the taxing officers of the Treasury, the Department normally charged with the collection of taxes, but also by the Secretary of Labor and his subordinates whose normal function is the advancement and protection of the welfare of the workers. In the light of these features of the act, a court must be blind not to see that the so-called tax is imposed to stop the employment of children within the age limits prescribed. Its prohibitory and regulatory effect and purpose are palpable. All others can see and understand this. How can we properly shut our minds to it?

Out of a proper respect for the acts of a co-ordinate branch of the government, this Court has gone far to sustain taxing acts as such, even though there has been ground for suspecting from the weight of the tax it was intended to destroy its subject. But, in the act before us, the presumption of validity cannot prevail, because the

proof of the contrary is found on the very face of its provisions. Grant the validity of this law, and all that Congress would need to do, hereafter, in seeking to take over to its control any one of the great number of subjects of public interest, jurisdiction of which the States have never parted with, and which are reserved to them by the Tenth Amendment, would be to enact a detailed measure of complete regulation of the subject and enforce it by a so-called tax upon departures from it. To give such magic to the word "tax" would be to break down all constitutional limitations of the powers of Congress and completely wipe out the sovereignty of the States.

## XI

### THE PROBLEMS OF TRADE UNIONISM

You have doubtless heard the statement, "In America there is no class-conscious proletariat; for the American laborer sees in himself a capitalist in embryo." When our country possessed an open frontier, undeveloped natural resources, opportunities for the ready acquisition of property, and a rising standard of living, a vigorous protest against conventional social arrangements was not to be expected. But with the passing of the frontier, the restriction of opportunity, and the increasing tendency toward social stratification, sentiments are changing. As laborers are convinced in increasing numbers that they are permanently of the "proletariat," they express themselves more vigorously against a "system" that makes inequalities possible. This, however, hardly threatens a "class conflict" in the immediate future; our class and group lines run in too many directions and cut each other at too many angles for that.

The "social unrest" is much more closely associated with group than with class interests. There are many groups of large capitalists and of skilled laborers. There exist accordingly many types of "capitalism" and even more of "unionism." Small capitalists and unskilled laborers alike are without consciously developed group feelings and vehicles for the expression of these feelings. It is those who are best off, those who appeal least to our sympathies, whose strength lies in union. However, since these labor groups are everywhere in contact with much the same type of "capitalist groups," they have much the same prejudices, sentiments, and theories. Fighting as they are, each for self, they are creating a common body of labor theory, and their respective interests are impelling them to a certain amount of common activity. The like is true of the capitalists.

A study of the appraisals placed upon unionism by men whose relations to it are very different, show fundamental differences as to the value of such an institution. Perhaps nothing connected with "the labor movement" is harder to understand—or more necessary to an appreciation of the problems of trade unionism—than the theories and attitudes—the viewpoints if you will—of capitalists and laborers. They are as conflicting and contradictory to an outsider as they are obvious and axiomatic to those who hold them. The capitalist, concerned with the "business" side of industry, easily acquires an understanding of the importance of basic institutions. He accordingly thinks in terms of legality, assumes the schemes of values surrounding him to be absolute, surrounds "property," "contract," and their complements with an air of sanctity, regards "the constitution" as supreme, and puts his full trust in the integrity of the courts. In determining the relations of employer and employees, he relies upon the efficacy of free competition and individual bargaining, insists upon his right to prescribe the conditions of employment, and believes quite firmly that identical legal rights guarantee equality of treatment to the two parties.

The laborer, concerned with the technical side of the process, acquires a common-sense philosophy of force; he believes in fatalism; he thinks that the employer has a more strategic position in bargaining than he possesses; he is convinced that capital concentrated under corporate ownership can be fought only by "united" labor. Unity in the labor group, accordingly, is the one thing that is necessary to an improvement in conditions. To secure it he thinks it necessary to insist uncompromisingly upon the "principle of uniformity"; upon a control of apprenticeship, of hiring and discharge, of technique,

of materials—in short of all that is necessary to secure in the larger sense the absolutely necessary “closed shop”; and particularly upon collective bargaining. This attitude serves to make quite intelligible such peculiar phenomena as restriction of output, taboos upon non-union materials, and the intense hatred of “scabs.”

The antithesis between the two systems finds a clear expression in “scientific management.” The employers, who are responsible for the many innovations which masquerade under this catholic name, aim at giving to management the control of technique, the selection of men properly qualified for various productive tasks, the establishment of a close connection between the individual’s work and his pay, and inferentially they aim at individual bargaining. The laborers oppose it because it strips them of the control of technique, of the right to hire and discharge laborers, of the prescription of the conditions of employment—of that “uniformity” which is essential to collective activity.

Industrial conflict, which is the most spectacular side of the trade-union movement, is to be explained very largely in terms of “collective bargaining.” The opposing parties make use of quite similar weapons: the strike, for example, finds its counterpart in the lockout, and the boycott in the blacklist. Each of these, curiously enough, resolves itself into the collective exercise of a right which in the individual case is legally recognized. It is not surprising that law, lacking an adequate social philosophy, and accustomed to discover society by aggregating individuals, should have been put to some sore shifts in dealing with these collective weapons. The use of these is usually a part of a protracted campaign prosecuted for many years, using a varied strategy, and employing many different instruments.

In the ten years preceding the war the strategic position of the employers had been greatly strengthened, that of the laborers correspondingly weakened. This is partly due to the greater staying power of capital. In part it is due to the close correspondence between the interests of the employers and the natural development of an individualistic social system. This is evident in the undermining of the powers of unionism by a long succession of court decisions. But to a considerable extent it is due to the effectiveness of employers’ associations. Because of their smaller numbers, employers better than laborers can make use of devices which lack full legal approval. The blacklist, for instance, can be effectively used where its very publicity prohibits the use of the boycott. Likewise, through “spies,” employers can get advance information of the strategy of an anticipated industrial conflict. It is beyond the power of unions to get any such information. The association has, through careful study, reduced strike-breaking almost to an exact science. The employers have liberally used funds to “educate” the public to the evils of those practices of the unions which are most inimical to them. Immigration, too, has stood them in good stead.

We are much too close to the facts to see in clear perspective, to appraise the significance of trade unionism in the last decade. The war replaced weakness by strength and gave to organized labor a strategic position far in advance of the wildest dreams of a few years ago. The “open-shop drive” which followed stripped the movement of many of its war-time gains and for the time seriously checked the extension of unionism. At the moment, organized labor is holding its lines. More indirectly, the objectives of the movement are being furthered by a better understanding of labor problems, by a higher value set upon the welfare of the worker, and by the movement for increased production.

As yet “unionism” in America is an exclusive organization. Its appeal has been to the skilled. If its intent has been good, it has had little success in appealing to the semi-skilled and the unskilled. Despite the great increase in numbers which the war has brought to it, the unions which make up the American Federation of Labor fall short of representing a majority of American workingmen. Outside of its ranks labor is attempting to acquire power by the use of such subtle and harassing methods as “the intermittent strike” and

"sabotage." These devices of "revolutionary unionism" are making their way into some very respectable unions. It need not be said that back of these methods is an attitude which insists upon the supposed interests of a small group even at the expense of society as a whole. A more significant innovation is the attempt of labor to "go into politics." This has been most evident in the crisis which led to the passage of the Adamson Act. Attempts at a "labor party" are and for some time will doubtless continue to be sporadic.

Our study of its most conspicuous features must not allow us to overlook the importance of unionism as an agency of control. The information, theories, and prejudices which the laborers acquire from their unions influence profoundly their thought and action upon non-industrial as well as upon industrial matters. The unions can eliminate from the lives of their members much of economic insecurity, can do much to establish better working conditions, and can set models for the state to use in improving the conditions of unorganized labor. It is more than possible that eventually they can, through the trade agreement, create permanent positions and equities in property for labor, and that these will, under the guise of having been established under free contract, be recognized by law. Our gravest concern is lest, in seeking the interests of the group, the interests of society be completely lost sight of.

## A. THE COMING OF TRADE UNIONISM

### 285. Bourgeoisie and Proletariat<sup>1</sup>

BY WERNER SOMBART

Capitalism is based on the private ownership of all commodities, and therefore also of those which are required for production—raw material, machinery, factories, land. Historic development has brought it about that production in these days is on a large scale; that is to say, it is carried on by the combination of many laborers under uniform direction. Thus, a thousand men are united to work a mine or a machine factory, and hundreds to spin or weave in some big establishment. But the same development has also brought it about that those who work together in this way have not the same rights with regard to the means of production. Some own these means of production, and therefore become the directing factors in the work of production, and also owners of the commodities produced. The others, who form the great mass of the workers, are shut out of possession of the means of production. Hence it follows that, in order to live, they are forced to put their labor power at the disposal of those who do possess the means of production, in return for a money payment. This comes about by way of a wage contract, wherein the laborer, who possesses naught but his labor, agrees with the owner of the means of production, who is on that account the director of production, to undertake to render a certain amount of work in return for a certain amount of pay.

When we remember that all production depends on the combina-

<sup>1</sup>Adapted from *Socialism and the Social Movement*, pp. 3-8. Published by E. P. Dutton & Co., 1908.



tion of labor and the material means of production, then the capitalist system of production differs in the first instance from other systems in that the two factors of production are represented by two separate groups, which must meet and combine if a useful product is to ensue. In this the capitalist system differs, from, let us say, the craft organization of industry, where the laborers were at the same time the owners of the means of production. But it differs likewise from slavery in that in the capitalist system the combination of the two groups comes about by free contract in what is known as the wages contract.

The capitalist organization of society is characterized by the race for profit and by a peculiar form of mental activity in individuals which I call "economic rationalism." All economic activities are at bottom directed toward the increase of the money which is put into production, or, in technical language, towards the profitable investment of capital. To this end, all the thoughts of the capitalists or owners of the means of production, or of agents paid by them, are occupied day and night in an almost feverish restlessness in order to bring about the most practical and rational shaping of economic and technical processes.

The social class which stands for the interests of the capitalist system is the bourgeoisie, or middle class. It is made up, in the first place, of capitalist undertakers, and in the second, of a large number of people whose interests are similar to those of the capitalist undertakers. I am thinking of the following elements: (1) All those who are economically independent (or who would like to be so), and are intent on profit-making, and who, moreover, desire a free legal system favorable to profit-making. That would include many shopkeepers, property-owners, agents, stock-jobbers, and so on, and also the more modern of peasant proprietors. (2) All those who are not economically independent, but are associated with the capitalist undertaker in his activities, mostly as his representatives, and who, as a rule, participate in his economic success. That would include paid directors of companies, managers, foremen in large businesses, and people like them.

The class at the opposite pole to this—the one cannot be thought of without the other—I have called the proletariat. In order to get a true conception of this class, we must free ourselves from the picture of a ragged crowd which the term brought to mind before we read Karl Marx. The term "proletariat" is now used in a technical sense to describe that portion of the population which is in the service of capitalist undertakers in return for wages, and elements akin to them.

The free wage-earners form the bulk of this class—all such persons as are employed in capitalist undertakings, leaving out, of

course, those mentioned above as belonging to the bourgeoisie because their interests are bound up with the capitalist system.

I have already pointed out that in order to get a true conception of the proletariat we must give up the idea of a ragged crowd. Indeed, the life of the proletarian is not always intolerable. Absolute distress is in no way a special characteristic of the class, though, to be sure, there are within it innumerable instances of want. But few proletarians are as badly off as the Russian peasant, or the Chinese coolie, or the Irish tenant, none of whom belong to the proletariat. Many a wage-earner, even in Europe, earns more than a university teacher, and in America the average income of this class falls not much below the maximum salary of an extraordinary professor in Prussia.

#### 286. The Historical Basis of Trade Unionism<sup>2</sup>

BY SIDNEY AND BEATRICE WEBB

The trade-union arose, not from any particular institution, but from every opportunity for the meeting together of wage-earners of the same trade. Adam Smith remarked that "people of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices." And there is actual evidence of the rise of one of the oldest trade-unions out of a gathering of the journeymen "to take a social pint of porter together." More often it is a tumultuous strike out of which grows a permanent organization. Instances are on record in which a number of laborers who have become accustomed to visit public houses have become the nucleus of organization. More than once the journeymen in a particular trade declared that, "It has been an ancient custom in the kingdom of Great Britain for divers Artists to meet together and unite themselves into societies to promote Amity and true Christian Charity," and establish a sick and funeral club, which invariably has proceeded to discuss the rate of wages, and insensibly has passed into a trade union with friendly benefits. If the trade is one in which the members travel the result has been a national trade-union.

But this does not explain why the continuous organizations of wageworkers came as late as the eighteenth century? The essential cause of this was the revolution in industry which came at this time. When such unions arose, the great mass of the workers had ceased to be independent producers, and had passed into the condition of life-

<sup>2</sup>Adapted from *The History of Trade Unionism*, pp. 21-37. Copyright by Longmans, Green & Co., 1894.

long wage-earners. Such unions came after "the definite separation between the functions of the capitalist and the workman, or between the direction of industrial operations and their execution in detail."

It is often assumed that the divorce of the manual worker from the ownership of his tools resulted from the introduction of machinery and the factory system. Were this true, we should not find trade-unions earlier than factories. Yet such combinations in England preceded the factory system by half a century, and occurred in trades carried on exclusively by hand labor. Some crafts lent themselves to an advantageous division of labor. Among these there is particularly to be mentioned that of tailoring. Because of the special skill required for tailoring for rich customers, the most proficient tailors were separated from the rest of the journeymen, and became practically a separate social class. This differentiation was promoted by the increasing need of capital for successfully beginning business in the better quarters of the metropolis. By 1700 we find the typical journeyman tailor in London a lifelong wageworker. It is not surprising, therefore, that one of the earliest instances of permanent trade-unionism occurred in that trade. Another instance is that of the woolen workers in the West of England. Again, it is not peculiar that in the year 1790 the Sheffield employers found themselves obliged to take concerted action against the "scissors-grinders and other workmen who have entered into unlawful combination to raise the price of labor." But the cardinal examples of the connection of trade-unionism with the divorce of the worker from the instruments of production is seen in the rapid rise of trade combinations on the introduction of the factory system.

It is easy to understand how the massing together in factories of regiments of men, all engaged in the same trade, facilitated and promoted the formation of workmen's societies. But the rise of permanent trade combinations is to be ascribed to the definite separation between the functions of the capitalist entrepreneur and the manual worker. It has become a commonplace of trade-unionism that only in those industries in which the worker has ceased to be concerned in the profits of buying and selling can effective and stable trade organizations be maintained.

## 287. The Organization of the Ill-paid Classes<sup>3</sup>

BY CHARLES H. COOLEY

It is quite apparent that an organized and intelligent class-consciousness in the hand-working people is one of the primary needs

<sup>3</sup>Adapted from *Social Organization*, pp. 284-89. Copyright by Charles Scribner's Sons, 1909.

of a democratic society. In so far as this part of the people is lacking in a knowledge of its situation and in the practice of orderly self-assertion, a real freedom will also be lacking, and we shall have some kind of subjection in its place; freedom being impossible without group organization. That industrial classes exist cannot be well denied, and existing they ought to be conscious and self-directing.

The most obvious need of class-consciousness is for self-assertion against the pressure of other classes, and this is both most necessary and most difficult with those who lack wealth and the command over organized forces which it implies. In a free society, especially, the Lord helps those who help themselves; and those who are weak in money must be strong in union, and must also exert themselves to make good any deficiency in leadership that comes from ability deserting to more favored classes.

That the dominant power of wealth has an oppressive action, for the most part involuntary, upon the people below, will hardly be denied by any competent student. The industrial progress of our time is accompanied by sufferings that are involved with the progress. These sufferings fall mostly upon the poorer classes, while the rich get a larger share of the increased product which the progress brings.

Labor unions have arisen out of the urgent need of self-defense, not so much against deliberate aggression as against brutal confusion and neglect. The industrial population has been tossed about on the swirl of economic change like so much sawdust on a river, sometimes prosperous, sometimes miserable, never secure, and living largely under degrading, inhuman conditions. Against this state of things the higher class of artisans have made a partly successful struggle through co-operation in associations, which, however, include much less than half of those who might be expected to take advantage of them. That they are an effective means of class self-assertion is evident from the antagonism they have aroused.

Besides their primary function of group-bargaining, unions are performing a variety of services hardly less important to their members and to society. In the way of influencing legislation they have probably done more than all other agencies together to combat child-labor, excessive hours, and other inhuman and degrading kinds of work, also to provide for safeguards against accident, for proper sanitation, for factories and the like. In this field their work is as much defensive as aggressive, since employing interests, on the other side, are constantly influencing legislation and administration to their own advantage.

Their functions as spheres of fellowship and self-development is equally vital and less understood. To have a we-feeling, to live shoulder to shoulder with one's fellows, is the only human life; we

all need it to keep us from selfishness, sensuality, and despair, and the hand-worker needs it even more than the rest of us. Usually without pecuniary resources and insecure of his job and his home, he is, in isolation, miserably weak and in a way to be cowed. The union makes him a part of a whole, one of a fellowship. Moreover, the life of labor unions and other class associations, through the training which it gives in democratic organizations and discipline, is perhaps the chief guarantee of the healthy political development of the hand-working class. That their members get this training will be evident to anyone who studies their working, and it is not apparent that they would get it in any other way.

In general no sort of persons mean better than hand-laboring men. They are simple, honest people, as a rule, with that bent toward integrity which is fostered by working in wood and iron and often lost in the subtleties of business. Moreover, their experience is such as to develop a sense of the brotherhood of man and a desire to realize it in institutions. Not having enjoyed the artificial support of accumulated property, they have the more reason to know the dependence of each on his fellows. Occasionally outbreaks of violence alarm us and call for prompt enforcement of law, but are not a serious menace to society, because general sentiment and all established interests are against them; while the subtle, respectable, systematic corruption by the rich and powerful threatens the very being of democracy.

The most deplorable fact about labor unions is that they embrace so small a proportion of those who need their benefits. How far into the shifting masses of unskilled labor effective organization can extend only time will show.

## B. THE CONFLICT OF IDEAS

### 288. The Decree of Providence

#### a) *The Gospel of Labor*<sup>4</sup>

BY HENRY VAN DYKE

This is the gospel of labor, ring it ye bells of the kirk:  
The Lord of Love came down from above to live with the men  
who work;

This is the rose he planted, here in the thorn-cursed soil,—  
Heaven is blessed with perfect rest, but the blessing of earth is toil.

<sup>4</sup>From *The Toiling of Felix*.

b) *The Sons of Martha*<sup>5</sup>

BY RUDYARD KIPLING

And the Sons of Mary smile and are blessed—they know the angels  
are on their side;  
They know in them is the grace confessed, and for them are the  
mercies multiplied;  
They sit at the feet and they hear the word—they know how truly  
the promise runs;  
They have cast their burden upon the Lord—and the Lord, He lays  
it on Martha's sons.

289. Trade Unionism Undemocratic<sup>6</sup>

BY CHARLES W. ELIOT

Trade unionism came into being under undemocratic forms of government shortly after the new developments of mechanical power changed completely the methods and conditions of many fundamental industries. The methods of the new trades unions, organized to improve the condition of the laboring people, were necessarily the methods of fighting, violence, and war. The conflicts of the employed with the employers were often barbarous and cruel on both sides. Nevertheless, the efforts of the unions were gradually successful. Through them higher wages and shorter hours were procured at a time when no disinterested and humane person could doubt that wages were too low and hours too long. This clear success gave the working people confidence in the violent methods employed. Gradually new policies, looking toward the creation of a monopoly of labor in each particular trade by the union of that trade, came into use.

The first is the limitation in the number of apprentices that shall be employed in a given trade. This limit of the number is ordinarily far below the number which it would be for the interest of the proprietor to employ. The object of this limitation is to keep down the number of journeymen in the trade, so as to prevent the coming into the trade of a number of persons so great as to affect the rate of wages. With a similar intention, trades unions have in general resisted the introduction of trade schools into public-school systems, and have also been disposed to interfere with the work of private or

<sup>5</sup>From a poem with the above caption which many years ago found its way into the newspapers.

<sup>6</sup>Adapted from *The Future of Trades Unionism and Capitalism in a Democracy*, pp. 9-29. Copyright by Kenyon College, 1909.

endowed trade schools. The policy of limiting the number of apprentices flies in the face of the American doctrine that education should be free to all and should furnish a useful training for the practice of any art, trade, or profession. Moreover, it is a selfish and monopolistic policy without mitigation.

Furthermore, many unions lay down rules which make it hard for a journeyman to become an employer, prescribing, for example, that no one shall become an employer until he is prepared to employ a specified number of journeymen. Such rules tend to stiffen every class or set of mechanics or operatives. Each class is hard to get into, and still harder to get out of; so that the true democratic mobility between classes or sets of working people is seriously impaired. It is a survival of the fighting times of trades unionism. Every fighting organization is compelled to sacrifice in large measure the individual liberty of its members. Herein unionism and democracy are in absolute opposition.

Two other monopolistic inventions have, within years comparatively recent, been adopted by trades unionism, the boycott and the union label. The boycott is intended to prevent all persons from buying, or even handling commercially, articles not made by union labor; and the union label is intended to support the boycott and to enable and induce the public to discriminate against articles which do not bear the label. The object of both policies is to secure all the productive labor in a given trade for union men; to this end articles or goods made by non-union men must find no market. The monopolistic aim of these policies is perfectly plain.

Many unions refuse to handle in their respective trades materials made by non-union labor, or coming from factories which are not conducted exclusively by union rules. This policy, if carried out successfully by a strong union which covers a large area, is capable of forcing the manufacturer to unionize his establishment; whereupon the unfortunate consumer is likely to be at the mercy of the manufacturer and the union combined. These monopolistic combinations are often entirely successful in the United States, or in large parts thereof, particularly in the building trades, and their recent successes account for a considerable portion of the great rise of prices which has taken place in this country during the last five years.

The manufacturer of plumbers' supplies, for example, makes an agreement that he will sell only to jobbers and to plumbers. The jobber agrees that he will sell only to plumbers. The plumbers are all union men. The owner of a building under construction cannot buy plumbers' supplies unless from some independent manufacturer

who is not in the combination. If he buys of such an independent manufacturer, the plumbers at work in his building will not touch the materials he has bought. In the district covered by such an agreement there is no competition which is really free.

It would be hard to exaggerate the intense opposition between all these monopolistic policies and the individual freedom in education, in family life, in productive labor, and in trade, which is the object and end of democracy. The limitation of output is a trades-union practice which combines in an unwholesome way a selfish unfaithfulness to duty in the individual workman with a deceptive notion of philanthropic interest in fellow-workmen.

Another trades-union doctrine that has had a very fortunate effect on individual character is the doctrine or practice of the minimum wage. In practice that wage turns out to be a uniform maximum wage, and it is ordinarily put at a level above the worth of the less skilful workmen. This practice is for the pecuniary interest of the younger and least skilful workmen, who, as a rule, predominate in the union, or at least are its most assiduous members. The first effect of this practice is to deprive the younger members of a union of all motive for improvement. A youth receives at the start the uniform wage, and the veteran who is a member of the same union is receiving no more. No effort on his part can raise his wages. The disastrous effect of this policy of the uniform wage on the desirable and happy increase of intelligence, efficiency, and good will as life goes on is perfectly apparent. Now a true democracy means endless variety of capacity freely developed and appropriately rewarded. Uniformity of wages ignores the diversity of local conditions as well as of personal capacity, obstructs the ambitious workman, cuts off from steady employment those who cannot really earn the minimum wage, and interferes seriously with the workman's prospect of improving his lot.

It is high time it should be generally understood that trades unionism in important respects works against the very best effects of democracy.

### 290. An Employer's View<sup>7</sup>

BY ANDREW CARNEGIE

The influence of trades-unions upon the relations between the employer and employed has been much discussed. Some establishments in America have refused to recognize the right of the men to

<sup>7</sup>Adapted from *The Gospel of Wealth and Other Timely Essays*, pp. 114-16. Copyright by Doubleday, Page & Co., 1906.



form themselves into these unions, although I am not aware that any concern in England would dare to take this position. This policy, however, may be regarded as only a temporary phase of the situation. The right of the workingmen to combine and to form trades-unions is no less sacred than the right of the manufacturer to enter into associations and conferences with his fellows, and it must sooner or later be conceded. Indeed, it gives one but a poor opinion of the American workman if he permits himself to be deprived of a right which his fellow in England long since conquered for himself. My experience has been that trades-unions, upon the whole, are beneficial both to labor and to capital. They certainly educate the workingmen and give them a truer conception of the relations of capital and labor than they could otherwise form. The ablest and best workmen eventually come to the front in these organizations; and it may be laid down as a rule that the more intelligent the workman the fewer the contests with employers. It is not the intelligent workman, who knows that labor without his brother capital is helpless, but the blatant ignorant man, who regards capital as the natural enemy of labor, who does so much to embitter the relations between employer and employed; and the power of this ignorant demagogue arises chiefly from the lack of proper organization among the men through which their real voice can be expressed. This voice will always be found in favor of the judicious and intelligent representative. Of course, as men become intelligent more deference must be paid to them personally and to their rights, and even to their opinions and prejudices; and, upon the whole, a greater share of profits must be paid in the day of prosperity to the intelligent than to the ignorant workman. He cannot be imposed upon so readily. On the other hand, he will be found much readier to accept reduced compensation when business is depressed; and it is better in the long run for capital to be served by the highest intelligence, and to be made well aware of the fact that it is dealing with men who know what is due to them, both as to treatment and compensation.

## 291. Articles of Faith

### a) *An Economic Creed*<sup>a</sup>

The National Association of Manufacturers of the United States of America does hereby declare that the following principles shall govern the Association in its work in connection with the problems of labor:

<sup>a</sup>Resolutions adopted at the Eighth Annual Convention of the National Association of Manufacturers, New Orleans, April, 1903.

1. Fair dealing is the fundamental and basic principle on which relations between employees and employers should rest.
2. The National Association of Manufacturers is not opposed to organizations of labor as such, but it is unalterably opposed to boycotts, black-lists and other illegal acts of interference with the personal liberty of employer and employee.
3. No person should be refused employment or in any way discriminated against on account of membership or non-membership in any labor organization, and there should be no discriminating against or interference with any employee who is not a member of a labor organization by members of such organizations.
4. With due regard to contracts, it is the right of the employee to leave his employment whenever he sees fit, and it is the right of the employer to discharge any employee when he sees fit.
5. Employers must be free to employ their work people at wages mutually satisfactory, without interference or dictation on the part of individuals or organizations not directly parties to such contracts.
6. Employers must be unmolested and unhampered in the management of their business, in determining the amount and quality of their product, and in the use of any methods or systems of pay which are just and equitable.
7. In the interest of employees and employers of the country, no limitation should be placed upon the opportunities of any person to learn any trade to which he or she may be adapted.
8. The National Association of Manufacturers disapproves absolutely of strikes and lockouts, and favors an equitable adjustment of all differences between employers and employees by any amicable method that will preserve the rights of both parties.
9. Employees have the right to contract for their services in a collective capacity, but any contract that contains a stipulation that employment should be denied to men not parties to the contract is an invasion of the constitutional rights of the American workman, is against public policy, and is in violation of the conspiracy laws. This Association declares its unalterable antagonism to the closed shop and insists that the doors of no industry be closed against American workmen because of their membership or non-membership in any labor organization.
10. The National Association of Manufacturers pledges itself to oppose any and all legislation not in accord with the foregoing declaration.

*b) A Political Creed<sup>o</sup>*

Whereas, The National Association of Manufacturers, in convention assembled in New Orleans, in 1903, adopted, declared and promulgated certain principles governing the work of the association in connection with problems of labor; and

Whereas, The past decade has demonstrated the truth of these declared principles; and

Whereas, During the past ten years new and different problems have also emerged, affecting our governmental, economic and industrial society, upon which we deem it our duty at this time to express our attitude and stand; therefore

*Resolved*, That in addition to the principles heretofore enunciated and declared at our convention in New Orleans in 1903, we, in convention assembled, declare and promulgate, in addition, the following declaration of principles:

First. We hold that the inherent powers of our courts of equity shall not be abridged in the issuance of injunctions in labor disputes.

Second. We hold that the power vested in our courts to punish for contempt of court should not be abridged by the granting of jury trial for contempt.

Third. We protest against class legislation, whether enacted by state legislatures or congress, and we assert that all forms of class legislation are un-American and detrimental to our common good.

Fourth. We pledge our loyalty to our judiciary, upon the maintenance of which, unswerved by passing clamor, rests the perpetuation of our laws, our institutions and our society.

Fifth. We favor the further enactment of equitable, beneficial, and simplified workingmen's compensation legislation.

Sixth. We denounce the subserviency of representatives of the whole people to the dictation of any class legislation.

Seventh. We affirm, in the light of proven facts, that any compromise, toleration, or identification with the leaders of criminal unionism will stultify our liberties and weaken respect for our laws and their just enforcement.

Eighth. We affirm our approval of the enactment of wise and just laws, necessary to improve conditions of labor.<sup>o</sup>

Ninth. We affirm that our tested, self-controlled, representative democracy is adequate, under our constitutional guarantees, to effectuate the real needs and purposes of our national life.

Tenth. We pledge ourself toward the accomplishment of the spirit and purpose of the foregoing.

<sup>o</sup>Resolutions adopted at the Eighteenth Annual Convention of the National Association of Manufacturers, Detroit, May, 1913.

*c) An Industrial Creed*<sup>10</sup>

BY JOHN D. ROCKEFELLER, JR.

Might not the parties to industry subscribe to an industrial creed somewhat as follows:

1. I believe that labor and capital are partners, not enemies; that their interests are common, not opposed; and that neither can attain the fullest measure of prosperity at the expense of the other, but only in association with the other.

2. I believe that the community is an essential party to industry and that it should have adequate representation with the other parties.

3. I believe that the purpose of industry is quite as much to advance social well-being as material prosperity; that, in the pursuit of that purpose, the interests of the community should be carefully considered, the well-being of employees fully guarded, management adequately recognized and capital justly compensated, and that failure in any of these particulars means loss to all four parties.

4. I believe that every man is entitled to an opportunity to earn a living, to fair wages, to reasonable hours of work and proper working conditions, to a decent home, to the opportunity to play, to learn, to worship and to love, as well as to toil, and that the responsibility rests as heavily upon industry as upon government or society, to see that these conditions and opportunities prevail.

5. I believe that diligence, initiative and efficiency, wherever found, should be encouraged and adequately rewarded, and that indolence, indifference and restriction of production should be discountenanced.

6. I believe that the provision of adequate means of uncovering grievances and promptly adjusting them, is of fundamental importance to the successful conduct of industry.

7. I believe that the most potent measure in bringing about industrial harmony and prosperity is adequate representation of the parties in interest; that existing forms of representation should be carefully studied and availed of in so far as they may be found to have merit and are adaptable to conditions peculiar to the various industries.

8. I believe that the most effective structure of representation is that which is built from the bottom up; which includes all employees, which starts with the election of representatives and the formation of joint committees in each industrial plant, proceeds to the forma-

<sup>10</sup>From a speech entitled "Representation in Industry" delivered before the War Emergency and Reconstruction Conference of the Chamber of Commerce of the United States, at Atlantic City, New Jersey, December 5, 1918. This "creed" was officially indorsed by the Conference.

tion of joint district councils and annual joint conferences in a single industrial corporation, and admits of extension to all corporations in the same industry, as well as to all industries in a community, in a nation, and in the various nations.

9. I believe that the application of right principles never fails to effect right relations; that "the letter killeth but the spirit giveth life"; that forms are wholly secondary, while attitude and spirit are all important; and that only as the parties in industry are animated by the spirit of fair play, justice to all and brotherhood, will any plan which they may mutually work out succeed.

10. I believe that that man renders the greatest social service who so co-operates in the organization of industry as to afford to the largest number of men the greatest opportunity for self-development and the enjoyment of those benefits which their united efforts add to the wealth of civilization.

## 292. The Viewpoint of the Trade-Unionists<sup>11</sup>

BY ROBERT F. HOXIE

Among the main charges brought against the unionist by the employer are these: first, that he refuses to recognize the generally conceded rights of the employing class; secondly, that he does not recognize the sacredness of contract; thirdly, that while he is struggling to obtain higher wages and shorter hours of work, he persistently attempts to reduce the efficiency of labor and the extent of the output. Assuming these charges to be substantially correct, let us in the case of each seek without prejudice to discover the real grounds of the laborer's attitude and action.

1. The "rights" which the employer claims, and which the unionist is supposed to deny, may perhaps be summarily expressed in the phrase, "the right of the employer to manage his own business." To the employer it is a common-sense proposition that his business is his own. To him this is not a subject of argument. It is a plain matter of fact and carries with it the obvious rights of management unhampered by the authority of outside individuals. But to the laborer it is different.

The laborer, like all the rest of us, is the product of heredity and environment. That is to say, he is not rational in the sense that his response to any given mental stimulus is invariable. On the contrary, like the rest of us, he is a bundle of notions, prejudices, beliefs, unconscious preconceptions and postulates, the prod-

<sup>11</sup>Adapted from "The Trade-Union Point of View," *Journal of Political Economy*, XV (1907), 345-56.

uct of his peculiar heredity and environment. These unconscious and subconscious psychic elements necessarily mix with and color his immediate activity. What is or has been outside his ancestral and personal environment must be either altogether incomprehensible to him, or else must be conceived as quite like or analogous to that which has already been mentally assimilated. He cannot comprehend what he has not experienced.

Now, it is well known that the environment of the laborer under the modern capitalistic system has tended to become predominantly one of physical force. He has been practically cut off from all knowledge of market and managerial activities. The ideals, motives, and cares of property-ownership are becoming foreign to him. More and more, in his world, spiritual forces are giving way to the apparent government and sanction of blind physical causation. In the factory and the mine spiritual, ethical, customary, and legal forces and authorities are altogether in the background. Everything to the worker, even his own activity, is the outcome of physical force, apparently undirected and unchecked by the spiritual element. The blast shatters the rock, and whatever of flesh and blood is in range is also torn in pieces. The presence and the majesty of the law and contract are altogether ineffective in the face of physical forces let loose by the explosion. In like manner the knife cuts, the weight crushes, the wheel mangles the man and the material with equal inevitableness. No sanction, religious, moral, customary, or legal, is there. Even outside the strictly mechanical occupations the machine and the machine process are coming to dominate the worker, and the growth in size of the industrial unit renders his economic relationships ever more impersonal—withdraws farther from his knowledge the directing and controlling spiritual forces. The laborer thus environed inevitably tends to look upon physical force as the only efficient cause and the only legitimizing sanction. He tends to become mentally blind to spiritual, legal, contractual, and customary forces and their effects.

To the laborer, as the product of this environment, the proprietary and managerial claims of the employer tend to become, of necessity, simply incomprehensible. The only kind of production which he can recognize is the material outcome of physical force—the physical good. Value unattached to and incommensurable with the physical product or means of production is to him merely an invention of the employing class to cover up unjust appropriation. He knows and can know nothing about the capitalized value of managerial ability or market connections. To him, then, the important point is: By what physical force are these things made

what they are? It is a matter of simple observation that the employer exerts no direct or appreciable physical force in connection with the productive process. Therefore, in the eyes of the laborer, he simply cannot have any natural rights of proprietorship and management based on productive activity.

In the same way all other grounds on which ownership and the managerial rights of the employer are based have become inconclusive to the laborer. Appropriation, gift, inheritance, saving, contract, in themselves do not produce any physical effect on the only goods which he can recognize. Therefore they cannot be used to prove property in any just or natural sense. They hold in practice simply because back of them is the physical force of the police and army established and maintained by the middle class to protect its proprietary usurpations. Thus the whole claim of the employer to the right to manage his own business to suit himself has become and is becoming in a way incomprehensible to the laborer on grounds of natural equity. At the same time, by virtue of habit and the sanction of physical force as a productive agent, he sees himself ever more clearly the rightful proprietor of his job and of the products of it. All this is the natural and inevitable outcome of the conditions under which he lives and toils.

2. The unionist laborer does not recognize the sacredness of contract. This is, if anything, a more serious charge than the preceding one.

As a matter of fact, the laborer is so circumstanced that obligations of contract with the employer must appear secondary in importance to his obligations to fellow-workers. This is not difficult to show. Ever since the establishment of the money-wage system, the everyday experience of the laborer has been teaching him the supreme importance of mutuality in his relations with his immediate fellow-workers. The money payment, related not to the physical result of his efforts, but to its economic importance, has been blotting out for him any direct connection between effort and reward. Experience has taught him to look upon his labor as one thing in its effects and another thing in its reward. As a thing to be rewarded he has learned to consider it a commodity in the market. As such he knows that it is paid for at competitive rates. He has learned that, if he undercuts his fellow, prompt retaliation follows, to the detriment of both, and he has learned that combination with his fellow results in better immediate conditions for both.

The worker does not, of course, look far beyond the immediate results. In severing the obvious connection between his task and the complete product, in removing from him all knowledge of the

general conduct and condition of the business, in paying to him a fixed wage regardless of the outcome of the particular venture, and in paying him a wage never much in excess of his habitual standard of living, the factory and wage system have accustomed him to a hand-to-mouth existence, have barred him from all the training effects of property-ownership, and have atrophied his faculties of responsibility and foresight. Moreover, it is not to be expected that today's empty stomach will be comforted by tomorrow's hypothetical bread, least of all by bread which is likely to comfort the stomach of another. Is it any wonder, then, that the laborer does not and that he cannot follow the economist in his complicated arguments to prove that, in the long run and on the whole, the keenest competition among laborers brings the highest rewards?

Proneness to breach of contract, therefore, is seen to be a natural and evitable outcome of his life and working conditions.

3. The third charge against the unionist which we have undertaken to examine states that while he is struggling for increase of wages he is at the same time attempting to reduce the efficiency of labor and the amount of the output. In other words, while he is calling upon the employer for more of the means of life he is doing much to block the efforts of the employer to increase those means.

There is no doubt that this charge is to a great extent true. In reasoning upon this matter the employer, viewing competitive society as a whole, assumes that actual or prospective increase in the goods' output means the bidding-up of wages by employers anxious to invest profitably increasing social income. It follows that in competitive society laborers as a whole stand to gain with improvements in industrial effort and process. In the case of the individual competitive establishment it is clear that the maximum income is ordinarily to be sought in the highest possible efficiency, resulting in increased industrial output. At least this is true where there are numerous establishments of fairly equal capacity producing competitively from the same market. Under such circumstances the increased output of any one establishment due to "speeding up" will ordinarily have but a slight, if any, appreciable effect on price. Each individual entrepreneur, therefore, is justified in assuming a fixed price for his product and in reckoning on increase of income from increase of efficiency and industrial product. Apparently it rarely occurs to the employer that this analysis is not complete. Having assumed that definite laws determine the manner in which income is shared among the productive factors, he apparently concludes, somewhat naively,



that just as the laborers in society will in the aggregate profit by increase in the social income, so also will the laborers in any individual establishment profit by increase in its income.

To this mode of reasoning, and to the conclusions reached through it, the unionist takes very decided exceptions. To the statement that labor as a whole stands to gain through any increase in the social dividend he returns the obvious answer that labor as a whole is a mere academic conception; that labor as a whole may gain while the individual laborer starves. His concern is with his own wage-rate and that of his immediate fellow-workers. He has learned the lesson of co-operation within his trade, but he is not yet class-conscious. In answer to the argument based on the individual competitive establishment he asserts that the conditions which determine the income of the establishment are not the same as those which govern the wage-rate. Consequently, increase in the income of the establishment is no guarantee of increase of the wage-rate of the worker in it. Conversely, increase in the wage-rate may occur without increase in the income of the establishment. Indeed, in consequence of this non-identity of the conditions governing establishment income and wage-rate, increase in the gross income of the establishment is often accompanied by decrease in the wage-rate, and the wage-rate is often increased by means which positively decrease the gross income of the establishment.

The laborer's statements in this instance are without doubt well founded. The clue to the whole situation is, of course, found in the fact that the wage-rate of any class of laborers is not determined by the conditions which exist in the particular establishment in which they work, but by the conditions which prevail in their trade or "non-competing group." With this commonplace economic argument in mind, the reasonableness of the unionist's opposition to speeding up, and of his persistent efforts to hamper production, at once appears.

### C. THE MEANING OF UNIONISM

#### 293. Types of Unionism<sup>12</sup>

BY ROBERT F. HOXIE

A penetrating study of the union situation past and present seems to warrant the recognition of functional types quite distinct in their general characteristics. It is true that these functional types do not in practice represent exactly and exclusively the ideals and activities

<sup>12</sup>Adapted from "Trade-Unionism in the United States: General Character and Types," *Journal of Political Economy*, XXII (1914), 211-16.

of any particular union organization or group. That is to say, no union organization functions strictly and consistently according to type. Yet as representing fairly distinct alternative programs of union action and as guides to the essential character and significance of the diverse organizations and groups included in the heterogeneous union complex, these functional types apparently do exist and are of the most vital concern to the student of unionism. There are seemingly four of these distinct types, two of which present dual variations.

The first and perhaps most clearly recognizable functional type may be termed *business unionism*. Business unionism appears most characteristically in the programs of local and national craft and compound craft organizations. It is essentially trade-conscious rather than class-conscious. That is to say, it expresses the viewpoint and interests of the workers in a craft or industry rather than those of the working class as a whole. It aims chiefly at more here and now for the organized workers of the craft or industry, in terms mainly of higher wages, shorter hours, and better working conditions, regardless for the most part of the welfare of the workers outside the particular organic group, and regardless in general of political and social considerations except in so far as these bear directly upon its own economic ends. It is conservative in the sense that it professes belief in natural rights and accepts as inevitable, if not as just, the existing capitalistic organization and the wage system as well as existing property rights and the binding force of contract. It regards unionism mainly as a bargaining institution and seeks its ends chiefly through collective bargaining supported by such methods as experience from time to time indicates to be effective in sustaining and increasing its bargaining power. Thus it is likely to be exclusive, that is, to limit its membership by means of the apprenticeship system and high initiation fees and dues, to the more skilled workers in the craft or industry or even to a portion of these. In method, business unionism is pre-eminently temperate and economic. It favors voluntary arbitration, deprecates strikes, and avoids political action, but it will refuse arbitration and resort to strikes and politics when such action seems best calculated to support its bargaining efforts and increase its bargaining power. This type of unionism is perhaps best represented in the programs of the railway brotherhoods.

The second union functional type seems best designated by the terms *friendly or uplift unionism*. Uplift unionism, as its name indicates, is characteristically idealistic in its viewpoint. It may be trade-conscious or broadly class-conscious, and at times even claims to think and act in the interest of society as a whole. Essentially it is con-

servative and law-abiding. It aspires chiefly to elevate the moral, intellectual, and social life of the worker, to improve the conditions under which he works, to raise his material standards of living, give him a sense of personal worth and dignity, secure for him the leisure for culture, and insure him and his family against the loss of a decent livelihood by reason of unemployment, accident, disease, or old age. In method, this type of unionism employs collective bargaining but stresses mutual insurance, and drifts easily into political action and the advocacy of co-operative enterprises, profit-sharing, and other idealistic plans for social regeneration. The nearest approach in practice to uplift unionism is perhaps to be found in the program of the Knights of Labor.

As a third distinct functional type, we have what most appropriately may be called *revolutionary unionism*. Revolutionary unionism, as the term implies, is extremely radical both in viewpoint and in action. It is distinctly class-conscious rather than trade-conscious. That is to say, it asserts the complete harmony of interests of all wage workers as against the representatives of the employing class and seeks to unite the former, skilled and unskilled together, into one homogeneous fighting organization. It repudiates, or tends to repudiate, the existing institutional order and especially individual ownership of productive means, and the wage system. It looks upon the prevailing codes of right and rights, moral and legal, as in general fabrications of the employing class designed to secure the subjection and to further the exploitation of the workers. In government it aspires to be democratic, striving to make literal application of the phrase *vox populi, vox Dei*.

Of this revolutionary type of unionism there are apparently two distinct varieties. The first finds its ultimate ideal in the socialistic state and its ultimate means in invoking class political action. For the present it does not entirely repudiate collective bargaining or the binding force of contract, but it regards these as temporary expedients. It would not now amalgamate unionist and socialist organizations, but would have them practically identical in membership and entirely harmonious in action. In short, it looks upon unionism and socialism as the two wings of the working-class movement. The second variety repudiates altogether socialism, political action, collective bargaining, and contract. Socialism is to it but another form of oppression, political action a practical delusion, collective bargaining and contract schemes of the oppressor for preventing the united and immediate action of the workers. It looks forward to a society based upon free industrial association, and finds its legitimate means in agitation rather than in methods which look to immediate betterment. Direct

action and sabotage are its accredited weapons, and violence its habitual resort. These varieties of the revolutionary type may be termed respectively *socialistic* and *quasi-anarchistic unionism*. The former is perhaps most nearly represented in the United States by the Western Federation of Miners, the latter by the Industrial Workers of the World.

Finally in the union complex it seems possible to distinguish a mode of action sufficiently definite in its character and genesis to warrant the designation *predatory unionism*. This type, if it be truly such, cannot be set apart on the basis of any ultimate social ideals or theory. It may be essentially conservative or radical, trade-conscious or class-conscious. It appears to aim solely at immediate ends, and its methods are wholly pragmatic. In short, its distinguishing characteristic is the ruthless pursuit of the thing in hand by whatever means seem most appropriate at the time regardless of ethical and legal codes or the effect upon those outside its own membership. It may employ business, friendly, or revolutionary methods. Generally its operations are secret and apparently it sticks at nothing.

Of this assumed union type also there appears to be two varieties. The first may be termed *hold-up unionism*. This variety is usually to be found in large industrial centers masquerading as business unionism. In outward appearance it is conservative; it professes a belief in harmony of interests between employer and employee; it claims to respect the force of contract; it operates openly through collective bargaining, and professes regard for law and order. In reality it has no abiding principles and no real concern for the rights or welfare of outsiders. Prevaillingly it is exclusive and monopolistic. Generally it is boss-ridden and corrupt, the membership for the most part being content to follow blindly the instructions of the leaders so long as they "deliver the goods." Frequently it enters with the employers of the group into a double-sided monopoly intended to eliminate both capitalistic and labor competition and to squeeze the consuming public. With the favored employers it bargains not only for the sale of its labor but for the destruction of the business of rival employers and the exclusion of rival workmen from the craft or industry. On the whole its methods are a mixture of open bargaining coupled with secret bribery and violence. This variety of unionism has been exemplified most frequently among the building trades organizations under the leadership of men like the late notorious "Skinny" Madden.

The second variety of predatory labor organization may be called, for want of a better name, *guerilla unionism*. This variety resembles

the first in the absence of fixed principles and in the ruthless pursuit of immediate ends by means of secret and violent methods. It is to be distinguished from hold-up unionism, however, by the fact that it operates always directly against its employers, never in combination with them, and that it cannot be bought off. It is secret, violent, and ruthless, seemingly because it despairs of attaining what it considers to be legitimate ends by business, uplift, or revolutionary methods. This union variant has been illustrated recently in the campaign of destruction carried on by the Bridge and Structural Iron Workers.

#### 294. The Real Purpose of Unionism<sup>13</sup>

WHEREAS, A struggle is going on in all the nations of the civilized world between the oppressors and the oppressed of all countries, a struggle between the capitalist and the laborer, which grows in intensity from year to year, and will work disastrous results to the toiling millions if they are not combined for mutual protection and benefit. It, therefore, behooves the representatives of the Trade and Labor Unions of America, in convention assembled, to adopt such measures and disseminate such principles among the mechanics and laborers of our country as will permanently unite them to secure the recognition of rights to which they are justly entitled. We, therefore, declare ourselves in favor of the formation of a thorough Federation, embracing every Trade and Labor Organization in America, organized under the Trade Union system.

#### 295. The British Labor Movement<sup>14</sup>

BY CARTER L. GOODRICH

"Successful trade unionism as it exists today is not a made-to-order affair, nor is it the objectification of any general theory. It is experimental, opportunistic and pragmatic. Its evolution has been dictated in every case by the pragmatic logic of the immediate fact."

Part of the quotation is from Hoxie on American labor, and part from Cole on the British movement. Which is which does not matter, for in this respect the two are fundamentally alike. French unionism has been rebuilt several times over and largely "after a picture in somebody's mind." German unionism grew rapidly and coherently under the guidance of a strong Central Commission. But the American and British unions, on the other hand, have developed "almost at haphazard" and with a minimum of stated theory. There

<sup>13</sup>The Preamble of the Constitution of the American Federation of Labor.

<sup>14</sup>1925.

has been somewhat more benefit of central direction in the American case, perhaps, and slightly more benefit of theory in the British; but in both the much more significant part of the growth has been by the slow adaptation of individual unions to the changing conditions in their respective trades.

But to point out this common quality in the two movements is not to deny their great differences. If the logic has been equally "pragmatic" in the two cases, "the immediate facts" have been quite unlike, and the two movements have taken advantage of different opportunities for somewhat different classes of workers. The British opportunism, moreover, is the older of the two, and during its long course has assimilated a greater number of elements. "Pure and simple" trade unionism was an established institution in Great Britain in the days when the American movement was almost wiped out at each successive panic, and the French at each successive revolution, and when Germany was a land of handicraftsmen and peasants; and "the English trade union movement has reached its present development because"—since Chartism at least—"there has at no point been a break."

But this continuity was almost destroyed under the new pressures of the eighteen-eighties; and from that crisis—and from the ways in which a break was averted—may be traced most of the present differences between the American and British movements. For in that decade the ideas of modern socialism first took serious hold upon staid British unionists, and in that decade also the famous Dock Strike marked the beginning of the permanent organization of the unskilled upon the grand scale. Controversy ran high for years between socialists and old-line unionists, and between the "New Unionism" of the unskilled and the "Old Unionism" of the aristocratic crafts, and threatened to break the movement in two.

Yet nothing was abandoned in the conflict, and the new ideas and the new organizations were in time modified and assimilated and brought into relation with the old. The older societies, however "hemmed in" they seemed to have been, "with sick and funeral claims," nevertheless turned into somewhat more vigorous fighting organizations. The new unions, for all their denunciations of the great insurance funds, began to adopt friendly benefits as soon as their members could afford them. The two sat down quietly together in the Trade Union Congress, other intermediate types grew up between them, and in the present century the tendency runs toward bringing the skilled and unskilled together at last in the same industrial unions.

In the meanwhile, moreover—strange as the statement sounds to a student of the American situation—politics was offering “an easier chance of transcending differences of craft and skill.” For the practical-minded socialists of the time made of their doctrines a bond of working-class unity, instead of a badge of disunion, and found a basis for common action with the union movement; and from that “alliance,” in which the latter was clearly the more powerful partner, has arisen the Labor party and all its successes. For the party is predominantly trade union still—in spite of the very real significance of its recent appeals to the “workers by brain”; and if today it represents more of a fusion and less of a mere alliance, it is because the socialist intellectuals have won over the trade unionists by devoting themselves very largely to projects that are close to the union purposes and that have something of a trade-union practicality.

It is to this compromise, in fact, that the British movement owes much of its effectiveness; and, as a result of it, the three branches of the movement—the unions that in 1920 counted some 60 per cent of the adult wage-earners in their ranks, the great co-operatives that have quietly enrolled three-sevenths of all the families in Great Britain, and the political organization that casts 5,500,000 votes and that forms without question the second party in the state—work together with a high degree of practical if not of structural unity.

The American labor movement, on the other hand, remains in a position much like that of the British movement before the Dock Strike sent it into untried ways. The Steel Strike of 1919 might have swung the balance toward the unskilled, but it failed completely; and the lower percentage of organization in America—scarcely half that of the British—is very largely a reflection of the difference at just this point. The more conservative political philosophy of the American movement, moreover, is partly to be accounted for by the fact that it is not influenced by the needs and aspirations of large groups of workers “from whom all possibility of attaining economic security through ownership has been definitely withdrawn” and to whom union action without governmental aid would offer only a slow and partial bridging of the gap that opens between them and the good life.

Accordingly, the American Federation of Labor, for all its skill in making use of the very different political machinery of the United States, has for the most part exercised its power on relatively minor questions; and what discussion there has been of socialism or of other larger issues has been a cause of discord and disruption rather

than of working-class unity. The socialists have frequently denounced and sometimes destroyed the established unions; "most craft unionists" have therefore been "violent haters of socialism in its objective party form"; and the resulting bitterness over abstract issues has been so intense and so destructive that the greatest leader of American labor based half his philosophy on the distrust of the place of the intellectual and of "ideas" in the movement. The unionism that he led has therefore been narrowly limited both in its numbers and in its purposes; and, although it is quite true that the American Federation of Labor has found richer pickings for its few on an opulent continent, it is equally clear that the British leaders have organized their many into a more powerful and a far more resourceful instrument for winning what prosperity a poorer and more crowded island may be made to provide.

The comparison, however, is hardly a fair one. For if it is true that the British have organized a greater class unity, it is also true that a much more homogeneous group was there to be unified. "The tradition of class organization is indigenous"; and British workers, for all the century-old jealousy between navvy and skilled artisan, have long been largely one. Their organizations, therefore, have been in much less danger than the American either of "dying at the top" or of dying at the bottom. For there was neither frontier nor hope of White House to draw off their cleverest and most energetic members, and even within industry the ladder of promotion has been much less accessible. Nor have the officials of the movement so often been tempted from their jobs. Lines on both sides have been too closely drawn. The leaders have had fewer chances to change sides; certainly they could not, as so often happens in America, "change sides without disrepute"—the feeling against the "gaffer's man" runs too high; and for the most part they have not changed sides at all. Nor has the movement had to face the even greater danger of inundation by wave after wave of immigrant labor. Even the Dockers, for all their degradation and for all their apparent unfitness for the collective self-help of unionism, were after all English workers appealed to by English workers. The British know nothing of the sudden clash of standards of living and nothing of the problem of polyglot organization.

In these terms, then, the contrasts may run. The British unions have domesticated their socialism and harnessed it in a moderate and very powerful party organization. They have almost absorbed their intellectuals—though not as painlessly as wistful Americans sometimes suppose—and put many of them to work on industrial



projects. And above all, they have won their Steel Strike—in the eighties on the London docks—and made a real place for the unskilled. But if, in these ways, they have achieved a higher degree of organization, it is in large part because they have not had to face the problem of imposing a fighting unity upon workingmen whose solidarity was threatened at once by a “becoming class” and an incoming one.

## 296. The American Labor Movement<sup>15</sup>

BY FRANK TANNENBAUM

The late start of the Trade Union Movement, late in point of time as well as in opportunity, is intimately bound up with the march of the American people from the New England to the West Coast. They stayed just long enough to rest and repair for the next lap of the journey. “This flight was the salvation of the individual, but it meant the destruction of the plans for organization.” It meant that the Trade Union Movement had to wait for a more opportune time for a more permanent industrial population. In this delayed origin of the American Labor Movement is to be found many of the factors that conditioned its future growth as well as its future character.

A permanent organization was retarded beyond the Civil War—in fact, until the eighties. But it was during these years that American industry was making its greatest strides; it was at this time that mines were being opened, iron foundries being established, textile mills being built, railroads developed. The worker moved on, and in his westward stride left a trail of iron mills, railroads, cars, engines, and factories. He moved on, and the factory remained behind him to be filled by other people, strangers with strange tongues and strange manners, and it was they who kept him going.

But the mill, the factory, and the rail remained. The curious shift and stride of the American worker, his very opportunities, became impediments in the way of organization. When at last the national unions came, they were compelled to meet strong industrial combinations—industries that had grown rich and powerful and had learned to be both contemptuous of and comfortable without labor organizations. In fact, they had bred into their very marrow an opposition to labor unions. There is thus, as a background, a rich, wide, country; an opening ahead for every man; a developing industry growing on a shifting labor force; a foreign population taking the place of the one that had just moved ahead; a developed industry before labor secured a foothold; and a prepared bias and hostility to

<sup>15</sup>1925.

any organization. These facts explain in part the desperation of organization in the United States.

Entwined with these were other influences which in their turn were responsible for the appearance of newer trends. The great spread of the country, the rapid flow of a population trained in other lands, ready to give its strength, health, and craft, ready to build, ready to dig, to plan, to work out the industrial pattern of a raw world, gave American industry a dynamic swing unequalled anywhere in the world. Those workers who did not escape from industry by going out to the West escaped from drudgery by going up in the scale of industrial control and management. Many men who in a stationary society would have been labor leaders and labor organizers were caught in the whirl of industrial development and became employers, managers, bosses, or politicians. It is interesting to note how many of the leaders of labor went into industry. All of the ex-presidents of a certain steel-labor organization went into industry. The leaders of the mine owners have frequently been, and, in a measure, are today former mine workers and miners leaders.

This shift upward gave the tone to the American social milieu. It made individualism rampant. Every man could succeed, and his failure merely proved his own faultiness. The flexibility of the American status gave the impression that there was no status.

It was in the face of such disintegrating forces that the American Labor Movement has been built. An analysis of the history of the American Trade-Union Movement reveals a peculiar and persistent process, a gradual conversion of the labor group to the need of organization and of staying organized. Whether among the sailors, the miners, the textile workers, or the clothing workers, the first attempts were always in the nature of a preliminary effort. It has always taken two, three, and sometimes a dozen different beginnings before a stable union was finally established. In some industries a half-century of intermittent strife left little of permanence behind it.

There are various reasons for such failures, for such halting growth. Organization is a new discipline, and people put it on slowly. Frequently the first attempts are spontaneous revolts which leave little behind them except that of an embittered memory. A later attempt sets the attitudes more firmly; a still later one may bring a recognized group to the front. A point of view is slowly developed, a philosophy becomes current; gradually an institutional favor accrues to the movement, and a beginning has been made. It is by such a painful process of education and adjustment that a union movement gets under way. The changing composite of the American working population made the need for re-education and for reorganization a persistent difficulty.

Organization is war—it is fighting for the right to exist; it is willingness to risk your head in industrial conflict. It means bitterness, harshness, suspicion; it means bullying, persuading, coercing not only the unorganized, but forcing your own organized group to carry on a battle for keeping intact the organization already in existence. It is here that one must seek for an explanation of the type of leadership that the American Labor Movement has achieved. It must battle for existence, and the first qualification for battle is the readiness for a fight. A strong, ruthless, bitter, narrow, aggressive, purposeful, jealous, contentious “machine”—making leadership is the order of the day. It must be capable of fighting “Scabs,” “Pinkertons,” private armies of guards, the police, and even defy the militia; it must be willing to stake life itself upon the fortunes of a battle. There is little room for the statesman, for the kindly, broad, philosophic spirit who debates the merits of an industrial issue and decides it in terms of the great social advantage. When your very right to exist is challenged, debates and arguments are rather beside the point.

In spite of difficulties some of the unions have achieved positions of stability and permanence. They are now ready to take their place in the community as institutions, but the achievement is so recent and tentative that the personnel has remained the same and the philosophy but little altered. It will take some years before the leadership that has with heroic effort built the American Labor Movement has passed away and given place to younger men. But even so, there is not sufficient room for any basic change in its philosophy. There is so much anti-labor activity in America, so many of the industries are unorganized, so many of the unions that are organized are on the fringe of a struggle for the very right to exist, that one must look to the program of organization as the most important next step in the American Labor Movement. And organization is war. But effective war needs, even if not in excess, idealism, faith, promise, and self-sacrifice.

There are, however, certain factors in the present situation which may contribute to the easing of the program for organization. The closing of the doors to foreign immigration will soon enough reduce the language and cultural difficulties. It will also bring a new and American generation of workers into the factories and the mills, workers with a public-school education where the stress is upon success and achievement, upon escape from hardships as the dominant motif. But in an industrial situation where escape from evil for the individual has become difficult, if not impossible, where escape is

easiest through organization, where the achievement of security and status is through the group, then the children may undo the evil unwittingly done by their fathers before them, and join with their fellows for common ends, and climb upward as a group when they find the avenues closed to the individual.

### 297. The Extent of Trade Unionism<sup>10</sup>

BY LEO WOLMAN

Compared with the total numbers of wage-earners in this country, trade-union strength, as measured by its membership, was relatively twice as great in 1920 as in 1910. The rate of growth during this decade was approximately the same whether membership is compared with the industrial wage-earning population of the country or with the combined industrial and agricultural wage-earning population. The tabulation below shows that, roughly, one-fifth of the

TABLE I

	Total Wage-Earners	Trade-Union Membership in U.S.	Per Cent Organized	Total Wage- Earners Excluding Agriculture	Trade-Union Membership in U.S.	Per Cent Organized
1920 . . . . .	26,680,689	4,881,200	18.7	23,480,077	4,881,200	20.8
1910 . . . . .	22,406,714	2,101,502	9.4	19,262,941	2,101,502	10.9

wage-earners of the country were members of labor organizations; whereas in 1910 something like one-tenth were so organized. In other words, in 1920, after ten years of very substantial growth in numbers, about four-fifths of the general category of wage-earners were not members of unions. While these figures are in themselves of considerable interest, their full significance cannot be clear without detailed inquiry into the sources of union strength and weakness. Such inquiry can be conducted only by discovering the varying magnitude of trade unionism in the great divisions of industry.

It has long been generally appreciated that labor organizations receive their first impetus and make their most striking headway among the so-called manual workers, those who work in factories and mines, on railroads and buildings; and that they have their most retarded development among persons, sometimes described as white-collar workers, who embrace unionism late and slowly. This appears to be universally true. An examination of the extent of labor organ-

<sup>10</sup>Adapted from *The Growth of Trade-Unions (1880-1923)*, pp. 85-91. Copyright by the National Bureau of Economic Research, Inc., 1924.

ization among these two types of employees in 1910 and 1920 shows this to have been the case in the United States as well. While the percentage of total employees who are members of unions is, roughly, 20, all of the important manual-labor groups stood far above this level; and in 1910 when the general percentage of organization was approximately 10, the same groups of manual laborers all showed a higher percentage of organization.

Differences in the extent of organization among the industries that comprise these major divisions are quite as striking and as significant as the difference among the major divisions themselves. At

TABLE II  
PER CENT OF WAGE-EARNERS ORGANIZED IN MAJOR DIVISIONS OF  
INDUSTRY, 1920 AND 1910

Division of Industry	Per Cent Organized	
	1920	1910
Extraction of minerals.....	41.0	27.3
Manufacturing industries.....	23.2	11.6
Transportation.....	37.3	17.1
Building trades.....	25.5	16.4
Stationary engineers.....	12.4	4.6
Stationary firemen.....	19.9	9.6
Trade.....	1.1	1.0
Professional service.....	5.4	4.6
Clerical occupations.....	8.3	1.8
Domestic and personal service.....	3.8	2.0
Public service.....	7.3	2.5

the same time that the whole mining group showed an increase in the extent of organization from 27 to 41, coal mines increased their organization from 35 per cent to nearly 51, while trade unionism in copper, gold, and other mines actually had a lower percentage of organization in 1920 than in 1910. The strength of the Western Federation of Miners has not been regained by its successor, the Mine, Mill, and Smelter Workers' Union. In 1910 the workers in the salt, oil, and natural-gas industry had no union at all; in 1920 there was a substantial organization with a membership of over 20,000.

Extent of organization in manufacturing industries runs the whole gamut from less than 1 per cent of organization in the chemical and allied industries to more than 57 per cent in clothing. The tremendous rise in the percentage of organization in this industry is,

in fact, the most striking phenomenon in the whole group of manufacturing industries. The clothing industry was converted from one of the weakly organized industries in 1910 into one of the most strongly organized in 1920. This is attributable, mainly, to the rise of the International Ladies' Garment Workers after their strike in 1910 and to the rapid increase in membership of the Amalgamated Clothing Workers, after their organization in the last months of 1914.

The very large rise in the food group was due almost wholly to an enormous growth in the extent of organization in slaughter- and packing-houses, or, in other words, in the packing industry.

Figures for the iron and steel industry appear to contradict current conceptions of the status of labor organization in that industry and are somewhat misleading, although the growth from 1910 to 1920 is a real one. In that portion of the steel industry which manufactures basic iron and steel products, there was very little labor organization in either 1910 or 1920. The category of iron and steel industries here presented, however, includes the manufacture of iron and steel products, such as agricultural implements, automobiles, railroad cars, ships, and boats, as well as individual occupations such as blacksmiths, boiler-makers, pattern-makers, iron-molders, machinists. In these branches of the industry there was substantial organization in both census years, and marked growth from one to the other; but it is unfortunate that the form of the trade-union statistics does not permit the calculation of the percentage organized in each of these branches of the iron and steel industry.

With few exceptions those parts of the manufacturing industries which were well organized in 1910 had strengthened their organization by 1920. The printing and publishing industry which was a little better than one-third organized in 1910 achieved organization of more than one-half in 1920. The great basic industries like chemicals, iron and steel, food products, lumber, metals, paper and pulp, and textiles were, after the total growth from 1910 to 1920, even in the most favorable instances less than one-fifth organized. The striking exceptions were, on the one hand, the clothing and packing industries, in which organization attained an entirely new and higher level, and, on the other, the liquor and beverage industries where uncommon, but well-known circumstances, prevailed, that led to disintegration of the union.

Transportation industries show in general a higher level of organization than the manufacturing industries. In fact, the three most substantial elements of this group were all more than 50 per cent

organized in 1920 and had more than doubled their percentage of organization since 1910.

Labor organization in professional service is restricted almost completely to the theater and to musicians, although there has recently grown up a small union of engineering draftsmen. Among the clerical workers the principal source of growth since 1910 is the rapid spread of organization among the railway clerks. Unionism in domestic and personal service is in 1920 as in 1910 limited to fair organization among barbers and waiters and to exceedingly slim organization among laundry workers.

### 298. The Strength of Trade Unionism<sup>17</sup>

BY LEO WOLMAN

All of these figures naturally raise interesting questions as to their significance in estimating the relative strength of labor organization in various occupations and industries. High and low percentages of organization are not necessarily synonymous with strength and weakness, and need, in fact, to be interpreted with some reference to the nature of the industry in which the unions operate and to the constitution of the particular union. In general, percentages of organization by industry are misleading unless the fact that the large bulk of American unions are occupational or trade unions is taken into consideration. Because of this highly significant characteristic, union membership in any industry does not represent the membership of a single union claiming jurisdiction over all the employees in that industry, but it is really an aggregate of the memberships of many unions, some limiting their jurisdiction to the workers in a single skilled craft and others admitting a more diversified lot of semi-skilled and unskilled workers. The only outstanding exceptions to this rule are the mining and clothing unions, which are essentially industrial unions.

The unions of skilled craft-workers are, also, the older and stronger organizations, and their membership is on the whole less subject to fluctuation. The unions of semi-skilled and unskilled workers are more recently organized, weaker, and more sensitive to the strains imposed by industrial depression. When, accordingly, these diverse classes of workers are combined into one industrial category, the real strength of the skilled unions is, to a degree, concealed in the gross results. This is particularly true of the building trades and steam-railroad industry, where the backbone of unionism has for a long time been the relatively few organizations of skilled

<sup>17</sup>Adapted from *The Growth of Trade Unions* (1880-1923), pp. 91-96. Copyright by the National Bureau of Economic Research, Inc., 1924.

craftsmen. Thus in 1920, when all employees in the building trades were just about one-fourth organized, the bricklayers, carpenters, and plasterers were about 50 per cent, and the plumbers more than one-third organized. The same disparities existed in 1910. At that time the whole industry was one-sixth organized, but the bricklayers and plasterers were about one-third organized. On the steam railroads, likewise, even the very high percentage of organization for the industry as a whole, 56.7 per cent, was exceeded by the percentages of organization for railway conductors, locomotive engineers, and locomotive firemen.

Another factor that should be taken into account in judging the strength of the labor movement in the United States is the size and infinite variety of the country. The enormous expense of conducting organization campaigns and of maintaining a staff of organizers all over the country, as well as the inherent difficulty of organizing a thin and scattered industrial population, has concentrated trade unions, in many industries, in the large industrial cities. There is, moreover, considerable evidence, although the supporting data are not available, that labor organization is much more widespread in certain sections of the country than in others. The South as a whole, for example, even in its industrial centers is very thinly organized, if at all; whereas the industrial East would probably show a high percentage of organization. The almost complete absence of trade unions in the textile industry in the South brings down the percentage of organization for the textile industry as a whole, although some of its centers in New England are tolerably well organized. Equally interesting comparisons could be made for other industries and for other sections of the country. But the unions are either unwilling or unable to submit a detailed geographical distribution of their membership.

Two interesting samples, which throw some light on these phenomena, have been collected for the occupations of bricklaying and printing. In the printing trade the largest source of union membership is the newspaper office; whereas the union is weaker in the book and jobbing trade and probably has a very light membership among compositors in small towns, where there are a considerable number of one-man shops. Similar data for the bricklaying trade is even more convincing on this point. In every large city the percentage of organization was considerably greater than the 50 per cent for the entire United States.

More than three years have elapsed since the taking of the census of occupations of 1920. It is known that in this period trade unions lost heavily in membership. The trend in the size of the working



population during the same period is still a matter of speculation. Aggregate statistics of the 1923 census of manufactures are not available at this writing. What evidence there is would seem to indicate a smaller number of employees in manufacturing industries in 1923 than in 1920. The statistics of the Interstate Commerce Commission show fewer persons employed on steam railroads during 1923 than during 1920. How large was the total decline, if any, in the number of employees of the country in these last years cannot be estimated. All things considered, however, it is probable that the extent of organization for all industry was considerably greater in 1923 than in the years immediately before and after the declaration of the world-war; that for manufacturing industries it is substantially less in 1923 than in 1920; that in transportation and mining the drop from 1920 to 1923 is not so great as in manufacturing industries; and that in the building trades, the drop in these last years was slight and organization in that industry in 1923 stood little, if at all, below 1920.

Any forecast of the trend of union organization in the future must reckon with two conditions that are comparatively strange in the American industrial situation. The first of these is legislation restricting immigration into the United States. The immigration law of 1924 establishes immigrant quotas which may reduce enormously the flow of immigrant labor into the country. The effect of this restrictive measure has already been noticed as one of the causes of the growth of labor organization in the clothing industry. It may be expected to exert the same kind of influence in other industries as well. The second factor is not so tangible and has to do with the probable influence in the future of the impetus given the movement by large gains made since 1915. Already, even in the cases where heavy losses have been registered since 1920, there is some evidence of the consolidation by labor organizations of at least a portion of their advances. How potent a force this impetus is, it is hazardous to guess; but it is easy to underestimate the influence of intangible social forces of this kind.

#### D. WAGES AND UNIONISM

##### 299. A Test of Wages<sup>18</sup>

BY JOHN A. RYAN

"A workman's wages ought to be sufficient to maintain him in reasonable and frugal comfort."—Pope Leo XIII.

<sup>18</sup>Adapted from "A Living Wage," *The Church and Socialism and Other Essays*. Reprinted in John A. Ryan and Joseph Hunslein, *The Church and Labor*, pp. 259-71.

What is "reasonable comfort"? Evidently, it is something more than the conditions and essentials of mere existence. To have merely the means of continuing to live and to work is not to be in comfort. What degree of comfort is reasonable? To this question we could get a hundred different answers from as many different persons. Each of the one hundred might conceive reasonable comfort as that to which he had become accustomed, or that to which he aspired because it seemed to bring happiness to others. The reasonable comfort that the Pope had in mind is merely the reasonable minimum. It is that smallest amount which will satisfy right reason. One way of finding out how much is required by this standard is to consult the judgment of competent and fair-minded men. Another and more fundamental method is to interpret reasonable comfort in the light of man's nature and essential needs. These are the ends to which any degree of welfare is but a means. Man's nature and needs, therefore, should indicate the amount of goods that constitute the minimum measure of reasonable comfort.

Like every other human being, the wage-earner is a person, not a thing, nor a mere animal. Because he is a person, he has certain needs that are not felt by animals, and his needs and his welfare have a certain sacredness that does not belong to any other species of creatures. A dog or a horse may be used as mere instruments to the welfare of man. They may rightfully be killed when man no longer wants them. Not so with the human person. He has intrinsic worth and dignity. He is made in the image and likeness of God. He is an end in himself. He was not created for the pleasure, or utility, or aggrandizement of any other human being or group of human beings. His worth and his place in the universe are to be measured with reference to himself, not with reference to other men, or to institutions, or to states. He is worth while for his own sake.

What, then, are the needs to which are attached this prerogative of intrinsic worth and sacredness? How much of the good things of life must a man have in order that he may live in a manner worthy of a person? In general, he must have sufficient goods and opportunities for the exercise of all his faculties and the development of his personality. On the physical side, this means food, clothing, and housing adequate to maintain him in health and working efficiency. If he is underfed, or insufficiently clothed, or improperly housed, he is treated with even less consideration than wise and humane men extend to their beasts of burden. Since the worker is not merely an animal and an instrument of production, but an intellectual and moral person, he requires the means of exercising and developing

the faculties of his soul. Therefore he needs some education, some facilities for reading and study, the means of practicing religion, an environment that will not make unreasonably difficult the leading of a moral life, and sufficient opportunities of social intercourse and recreation to maintain him in efficiency and to give him that degree of contentment that is essential to a healthy outlook on life. As regards the future, the worker requires a certain minimum amount of security against sickness, accident, and old age. Finally, all these goods should be available to the worker, not as a single man, but as the head of a family; for marriage is among the essential needs of the great majority. All the foregoing goods and opportunities are included in the concept of reasonable comfort.

### 300. The Division of Income<sup>10</sup>

1. The size of the National Income in the United States during recent years can be determined with a margin of error that is probably less than 10 per cent.
2. The final estimate of the National Income in 1909-18 runs as follows:

TABLE I

	Billions		Billions
1909.....	\$28.8	1914.....	\$33.2
1910.....	31.4	1915.....	36.0
1911.....	31.2	1916.....	45.4
1912.....	33.0	1917.....	53.9
1913.....	34.4	1918.....	61.0

These figures do not include any allowance for the money value of the work done by housewives for their own families, an item which would add several billions to the money total if all housewives were paid on a commercial basis.

3. The final estimate of the National Income on a per capita basis is as follows:

TABLE II

1909.....	\$319	1914.....	\$335
1910.....	340	1915.....	358
1911.....	333	1916.....	446
1912.....	346	1917.....	523
1913.....	354	1918.....	586

4. Most of the huge increase in the National Income during the

<sup>10</sup>From *Income in the United States: Its Amount and Distribution*, I (1909-19), 143-47. The investigation was made by Wesley C. Mitchell and others. Copyright by Harcourt, Brace & Co., 1921.

war was due merely to the rise of prices. If the preceding figures are reduced to terms of prices in 1913, we get the following results:

TABLE III

	National Income (Billions)	Income per Capita
1909.....	\$30.1	\$333
1910.....	32.2	349
1911.....	31.7	338
1912.....	33.2	348
1913.....	34.4	354
1914.....	33.0	333
1915.....	35.2	350
1916.....	40.7	400
1917.....	40.8	396
1918.....	38.8	372

5. Not only the National Income but also the Per Capita Income is much larger in the United States than in any other country. The following figures show the National and Per Capita Income at the outbreak of the war in countries for which estimates with a margin of error probably not exceeding 10 per cent have been made.

TABLE IV

1914	National Income (Billions)	Income per Capita
United States.....	\$33.2	\$335
United Kingdom.....	10.9	243
Germany.....	10.5	146
Australia.....	1.3	263

6. The share of the net value product of different industries which is paid to employees as compensation for their services (not by any means equivalent to the "share of labor" in industry) varies from about one-eighth of the total in agriculture to about three-quarters of the total in mining, manufacturing, water transportation, and government work.

This share in most industries declined with the sudden rise of prices in 1914-16 and rose again with the advance of wages and salaries in 1917-18. The average for all industries was a trifle higher in 1918 than in 1909, but not so high as it had been in 1913.

7. In the highly organized industries conducted on a large scale, the pay of employees, including the salaries of officials, absorbs in

most years some 69-72 per cent of the net value product. The remaining 31-28 per cent is the share of "management and capital." From it are paid interest, rent, and profits. Even in these highly organized industries, part of the work of management is paid for under the form of profits, and in some cases, the subordinate officials and wage earners also share in the profits.

From 1909 to 1918, the extreme fluctuations in the share of management and profits varied from 33 per cent of the net value product in 1916 to 23 per cent in 1918.

8. Of the total payments to employees in the highly organized industries, about 92 per cent goes to the manual workers and clerical staffs, while 8 per cent goes to officials.

9. In 1918, the year for which the best data are available, about 86 per cent of persons gainfully employed had incomes of less than \$2,000 per annum, and about 14 per cent had incomes exceeding that sum.

In the same year, about 60 per cent of the National Income was divided among the 86 per cent of the gainfully employed who had incomes of less than \$2,000 per annum, and about 40 per cent of the National Income was divided among the 14 per cent of the gainfully employed who had incomes exceeding \$2,000.

The net effect of our participation in the war was to diminish somewhat (at least temporarily) the inequality in the distribution of American incomes.

10. If we consider the 5 per cent of those gainfully employed who had each year the largest incomes, we find that their share in the aggregate of personal incomes declined from about 33 per cent in 1913-16 to about 25 per cent in 1918-19.

11. Data regarding the detailed distribution of personal incomes are scanty and difficult to systematize; but the best approximation this Bureau has been able to make indicates that in 1918, the most prosperous 1 per cent of the income receivers had nearly 14 per cent of the total income, the most prosperous 5 per cent of the income receivers had nearly 26 per cent of the total, the most prosperous 10 per cent of the income receivers had nearly 35 per cent of the total, and the most prosperous 20 per cent of the income receivers had about 47 per cent of the total income.

It should be noted that when we start from the top of the income scale, we must go down to people receiving \$8,000 per annum, in order to include 1 per cent of the income receivers. Similarly, to include 5 per cent of the income receivers, we have to descend to incomes of \$3,200-\$3,300. To include 10 per cent, we must take in

part of the \$2,300-\$2,400 class; and to include 20 per cent we must include part of the \$1,700-\$1,800 class.

### 301. The Control of Wages<sup>20</sup>

The problem of getting wages into the service of man requires a fresh attack. It is the simple and direct question of how in an economic world, whose arrangements are of human contrivance, wages can be brought up to the level demanded by the real needs of the laborer. Its gradual solution is to be found in extracting from the real sources of wages enough to make them adequate. This requires a "program" which will trace the rate of wages to its beginnings, even to the confines of the industrial system, ferret out its many factors, contrive agencies for controlling these, and extract what each has to give. A cursory analysis shows that these factors which make wages great or small fall into the three general classes of the pecuniary, the technical, and the economic. Since these terms are smug and abstract they fail to reveal the great variety and the concrete reality of the factors with which a program must deal. For that reason each of them requires a paragraph in passing.

The first group of wage-making factors consists of prices and incomes adjacent to wages. It is obvious that wages may wax fat at the expense of abutting incomes. The device of passing the "incidence" of a wage increase "along" is hoary with age and worn with sad experience. It is a first aid and a last hindrance to protestants who rebel at the creed of inevitable wage-rates and try to make the laborer's earnings what they would have them be. This is manifest in the belief of trade unionists that the way to the larger wage lies through "bargaining" and in the attempt of uplifters to establish "a minimum wage" by legislative fiat.

Though others may not escape, the consumers or the owners are usually expected to bear the burden of the fatter pay envelope. The trouble with the consumer is that he is like the sheep who has been shorn so often that wool has been replaced by bad temper. Besides, if the device of making the buyer pay is used too generously, it defeats its own object; for though it may fall out otherwise, it too often happens that rising prices will give rising wages a merry chase. In this case, since laborers use one another's products, the net result of much struggle will be the small surplus wrung in higher prices from consumers who are not laborers.

An impost upon profits has more catholic limits. In some indus-

<sup>20</sup>Adapted from Walton Hamilton and Stacy May, *The Control of Wages*. Copyright by George H. Doran Co., 1922.

tries, or at least in some industries at certain times, it is possible to give to those who have not out of the abundance of them that have. But in a society in which "profits" is at once the bait which attracts to the industry funds which find expression in productive equipment, and the lure which impels managements to be efficient, there are limits to expropriation unless accompanied by other arrangements for securing the performance of these necessary functions. Above all, it must be remembered that attempts to advance wages by acquisitive arts everywhere encounter vested interests and provoke strong resistance.

The second group of wage-making factors are the technical processes of industry. "The state of the industrial arts" is not an abiding one; the touch of improvement constantly comes to instrument, to method, to process, to organization. An improvement in health, training, placement, or morale may increase the efficiency of labor. The rate at which industrial technique develops may be accelerated at a cost which is a mere fraction of the accruing return. The utilization of knowledge about the ways of production may be brought abreast of its discovery. The productive equipment of the poorest plants in an industry may be brought up to the standard of the best. "Rule of thumb," "trial and error," and the forgetfulness called experience may give place in factory organization to at least an intelligent ritual. The use of standards of competence may lead to the selection of a more competent personnel for managerial rôles. And, thanks to some shrewd trade union who will offer a prize for the best essay upon "How to Improve the Morale of the Management," those who have authority may come to view their establishments a little less as profit-making ventures and a little more as instruments of production.

These are mere instances of sundry ways in which the technical efficiency of industry may be increased. Each of them is at the mercy of human wisdom or human folly. Each makes possible the production of a larger volume of goods at the same cost or of the same volume at a lower cost. Together they promise a substantial surplus available for additions to the wages bill. This surplus, unlike that wrung from consumers and owners, is new and unappropriated.

The third group of wage-making factors are the habits, customs, practices, and arrangements which are our "economic arts." The "order" within which we toil, divide our loot, and waste our incomes is our very own, unlike those of other times and places. Moreover, whether we would have it so or not, it is constantly changing. So it

is that our "industrial system" is an active cause of our "wages structure." If our economic arrangements were different, our wages would be higher or lower than they are now. Almost certainly they would not be just the same.

For that reason a conscious control of our "institutions" as they develop is one way of making wages what they should be. A reduction of the violent rhythm of the business cycle and the attendant unemployment, an elimination of the wastes which are incident to the competitive marketing of goods, a contrivance of a standardized dollar which can measure values so accurately that it can look the honest old yardstick in the face, and an application of a systematic program of production to some basic industry are "sample" changes which may provide funds upon which laborers, and others too, will look with covetous eyes. Here belong proposals ranging from the modest desire to eliminate "competitive salesmanship" to the radical dream of the unification of industry under workers' control.

The returns which economic reorganization offers are more speculative, less immediate, and more promising than those which are gifts of a progressive technique. But to those who will plan, who can wait, and who are not afraid to dare, a conscious development of our very backward economic arts offers abundance.

It is unfortunate that the new wealth created by the encouragement of industrial and economic arts does not automatically become wages. In the confusing world of modern industry, the sources of wages are the sources of other incomes. Those who receive royalties, rents, profits, and whatnot would, if they could, reap these gains indifferent to whose has been the sowing. If wage-earners are to make their title good against other claimants, they must to a quarrel just add might and intelligence. If theirs is the plan which creates the new wealth, there is none rightfully to challenge their claim. Their might is an affair of numbers and of concerted action. A check upon the immigrant flood and decorous behavior from the unruly germ plasm will prevent well-laid plans from being wrecked by competition among superfluous laborers. A substitution of collective bargaining for the altruism of the employer will give to militant laborers a basis for unity to their endeavors. For them intelligence is the hardest thing of all to get because there is so little of it to be had.

Here the beginning and the end of wisdom lie in the theory of wages which rumbles around in the heads of those who make wage-rates. If the leaders believe that wage-rates are inevitable because they rest upon natural laws, they begin the struggle with the battle lost. If faith and knowledge enable them to discover and tap the



very human sources from which "more" must come, they can win the great game from the crafty folk who play against them.

If they are to be freed from slavery to the pay envelope and wages are to be domesticated, laborers must wage their own battle. This objective must find expression in a comprehensive and far-reaching program which is really a number of little programs designated to meet varied exigencies and to serve the needs of particular industries. Long ago those who labor learned to demand more from those who guide the destinies of businesses, but they have not yet become particular about where the "more" is to be found. Long ago those who direct learned that there was wealth in improvement and innovation, but they have not yet been overcome by a desire to turn the increase into wages.

What is needed is an articulation of wage demands with technical and economic development. In factory organization, employment management, technical education, the development of engineering, projects of economic reform, and shreds of a real social theory there are already developing arts which a program for the control of wages can use. In the government, militant trade unionism, deliberating trade unionism, the organization of business, professional associations, and the fickle thing called common sense there are instruments of control which it can employ. These are inadequate to be sure; for neither arts nor agencies were contrived to fit this particular need. Many of these, despite an alien origin, can be bent on the purpose. Where they are inadequate new arts and agencies can be contrived. The task is not trifling; for an attempt of organized laborers to bring wages under control will commit them to a far larger responsibility for industry than they have yet been willing to assume.

## E. LABOR AND OUTPUT

### 302. Selling Labor Short<sup>21</sup>

BY WALTER DREW

The most vital, important, and sinister of the economic features of the closed shop is the decreased efficiency of the union man. The fact is too well settled to permit of argument. Bricklayers, for instance, in a closed shop will lay on an average eight hundred to one thousand brick per day, when a fair day's work of eight hours, and one which was common a few years ago, would be three thousand and more brick. The structural iron worker, when he had his closed

<sup>21</sup> Adapted from *Closed Shop Unionism*, pp. 10-12, a pamphlet issued by the National Association of Manufacturers of the United States of America, 1909.

shop, would drive from seventy-five to one hundred rivets per day. In an open shop at the present time in New York and other cities, the output runs from two hundred to four hundred rivets per day. A carpenter before he had a monopoly would hang a door in an hour; now, in his closed shop, he considers four doors a good day's work. President Mellen, of the New Haven, in a recent report, stated that with every increase in wages to the union employes of the road there was a corresponding decrease in efficiency.

These things are not hard to understand. The wage scale by which the good man and the poor receive the same wage takes away the incentive of the good man. Why should he do any more or better work than his fellow, when they receive the same wage? The good man, also, is often kept from conscientious work by the union doctrine that he must not set too fast a pace for his less-skilled fellow, who otherwise might lose his job if the comparison were too much to his discredit. This applies not only to his less-skilled fellow union men, but also to the shiftless and the lazy, who because of service in union political matters have been rewarded with a job in which the union boss desires to see them retained. The practice of making work is also common. That is, in dull times, if a piece of work could be very well performed by ten men in a given time, each man employed so decreases his efforts as to make it necessary to employ twelve or fifteen men in order that employment may be given to more of the members of the union. The teaching of labor leaders to the effect that labor produces all wealth, that there is an inevitable conflict between capital and labor, and that unions are organized for the purpose of getting as much as possible and giving in return as little as possible, all serve to deaden the conscience and decrease the effort of the union man. The natural result of this combination of causes, added to the ever-present fact, of course, that the union man in the closed shop is not subject to discharge, as would be a non-union man, but has back of him the entire strength of the monopoly to vouchsafe him his job, results in reducing the efficiency of the men to a point where that of the shiftless, the lazy, and the least skilled becomes the common measure of the efficiency of all. The question of high wages, then, is not the most important in reaching the final wage cost; and when, coupled with high wages, there is a decrease in the output of the worker 50 per cent or more, the final figures reflected in the cost of production become startling.

As a partial summing up, pile up on top of this abnormal wage cost the toll of graft; the losses occasioned by jurisdictional disputes, sympathetic strikes and strikes waged to establish the closed shop and involving no question of wages or hours; the general and more in-

definite loss to industry through the disorganization of the productive factors due to the domination of the union boss and the arbitrary restrictions and limitations insisted upon—and some idea may be gained of what the closed shop means in its relation to the cost of production. The final consumer must pay for all these items, unreasonable, abnormal, illegitimate and uneconomical as they may be. One partial offset to this is the fact that high wages are paid to the few men having the monopoly, thus increasing their purchasing power and creating to some extent a market for goods at the higher prices; but this is a very small item of benefit, for the reason that the number of men receiving the higher wages is so few in comparison with the number of the great purchasing public that the wages paid them can have very little appreciable influence in creating a general market. The final result, then, is that the general public pays abnormal and uneconomic prices for many products with no corresponding element of benefit.

### 303. The Output of Labor<sup>22</sup>

BY WILLIAM G. ELIOT, III

It is easy to argue theoretically that the employed laborer should strive always for a maximum production of goods. But a glance at industry suggests that he is often either unfamiliar with such arguments or unmoved by them. Instances of restriction of output fairly chargeable to him are everywhere in evidence. Academic theories are futile in the face of the fact that he himself may not lose, and may even derive a direct gain, from such restrictions. In the first place, as the income of a business is apportioned among its participants there is no immediate or necessary relationship between the exertion of a worker and the wages received by him. Secondly, labor is more or less sheltered from competition from other localities and trades. Organized labor can therefore in some degree dictate the terms under which its services will be available. In either case, the costs of the restrictive practices can be made to fall upon the employer or the community. It goes almost without saying that these practices are not the result of a deliberate desire for limitation of output as an end in itself, but, in so far as they are conscious at all, are part of the worker's larger endeavor to improve his condition in life. Given our present industrial system, they too often seem to be the only means at hand. The laudable pursuit of personal betterment, however, can clearly be carried so far as to become antisocial.

The restrictions due to the uncertain relationship between exer-

<sup>22</sup>1925.

tion and reward are surreptitious and usually without formal organization. The worker hired by the day is perfectly aware that (within wide limits) he will not earn more by laboring strenuously nor less by "taking it easy." The only connection between effort and earnings is the indefinite one of discharge or promotion. It is not surprising, therefore, that lazy men should be particularly slack when the boss has turned his back. Even a good worker will push himself a little harder when his employer is watching. The same psychology explains the notorious inefficiency of labor in times of "prosperity." The man knows that his employer does not wish to lose him, and that if he is discharged there are plenty of equally good jobs open. Hence the anomalous phenomenon of increased restriction of output just when employers are most anxious to keep production at a maximum. On the other hand, and by another seeming paradox, a scarcity of work will sometimes induce the laborer to go slowly. When the end of a job is in sight, and it is apparent that discharge is to follow, it is to his advantage to postpone its completion as long as possible, especially if jobs are scarce elsewhere. The same logic applied to the whole of industry appears in the "lump of labor" theory, which argues that the less each worker does the more employment there is for others, a fallacy which we need not stop here to discuss.

Under a system of payment by the piece there is usually a distinctly higher individual productivity, since the laborer has a direct pecuniary interest in his output. But because of labor competition and because the employer is accustomed to paying his hands only what he considers a "normal" wage, increased earnings have commonly led to a cut in the piece rate. Speeding up, from the viewpoint of the workers, thus defeats its own purpose. Rather than bring this result, they have often agreed quietly to limit their daily earnings.

Whether working by the day or by the piece, then, the employee may have nothing to lose by slack work. If everyone is inefficient, "real wages" obviously will fall; but to the individual laborer the evil results are too indefinite to be impressive. He can easily see, on the other hand, how his own condition can be calculably improved by restriction of his personal output. If his act results in a social loss—and he may freely grant that it does—his small share of the loss is eclipsed by his large immediate gain.

Among those practices depending upon the arbitrary power of favorably situated groups are, first, those which control the labor supply. Most unions attempt to maintain a "closed shop." This has

no significant effect upon output if entrance to the union is open to all technically qualified. But it is often combined with devices for limiting membership. Apprenticeship rules, once essential to preserving the skill of a craft, now survive too often only as a means of restricting numbers. The term of apprenticeship may be unnecessarily long in these days of specialization, or the ratio of apprentices to journeymen too low to supply the legitimate needs of the industry. Prohibitive initiation fees, running sometimes to several hundreds of dollars, have also helped preserve union exclusiveness. In some organizations the vote of a very small minority can prevent the admission of new members. "Jurisdictional" regulations control not only the labor supply, but also the job supply. Every union claims "jurisdiction" over a certain field of employment. Bricklayers, for example, have insisted upon their right to cut pipe openings in masonry, even where the plumber or his helper could do it equally well and cheaper.

All rules which prevent an employer from "hiring and firing" freely, or from setting his employees to any work which he chooses, constitute potential or actual restrictions of output. A skilled worker may thereby be kept out of the job in which he can make the most productive use of his abilities. At the same time an employer may be operating his plant short-handed because he is not permitted to take on non-union men. It may well be that in any given case apprenticeship does provide better-trained workers, that jurisdictional regulations do effect a higher grade of workmanship; but the results are not always so favorable as to warrant the loss of output which is the immediate consequence. Limitations upon admission to a union may raise the wages of a particular group, and this may be highly desirable; but it can also be carried to an extreme that justifies public protest. Unemployment in slack times may be reduced by preventing a trade from becoming overcrowded in busy times; but the same regulations, under changing circumstances, may hinder legitimate expansion.

Another type of control is found in various rules regarding the introduction and use of machinery. Union members are prohibited from working with new or improved machines; or the number of machines to be operated by a single worker is limited. Such requirements can destroy all the prospective economy of the labor-saving device and so entirely prevent its use. They may be only the desperate effort of a group of skilled laborers to keep their jobs. When the glass-bottle-blowing machine was invented, a skilled trade was threatened with immediate destruction. The gradual introduction

of a machine may prevent widespread unemployment, and can be successfully defended on that ground. The same cannot be said of a policy of complete prohibition nor of long-continued obstruction. Some of the regulations protect the operator from excessive strain. Some do not even pretend to be more than schemes for creating or maintaining a greater number of jobs. The laborer's opposition to scientific management and similar efficiency methods is based on the same kind of arguments, with the chief emphasis upon protecting the worker from overspeeding, or from such mechanizing as makes him less than human. But except where his health is so conserved as to lengthen his productive life, or where a serious temporary disorganization is prevented, it is clear that all these interferences with the methods of production must be regarded as restrictions of output.

Two other practices can be dealt with in a few words. The reduction of hours presents a clear-cut issue. Either the shorter day is offset by increased efficiency, or it is not. If it is, there is no limitation of output. If it is not, there is a restriction; but it can often be justified by the judgment that the gain in leisure outweighs the loss in material goods. The strike and its near-relation, sabotage, are both avowedly militant in nature, and are intended to bring an employer to terms, though the direct resort is to restriction of output as such. Their use is defensible only where there are no better means at hand for achieving a legitimate end.

Granted that our concern is to make industry increasingly productive, how are we to meet these attitudes and policies of the worker and his organizations? The problem is not like that of improving the thermal efficiency of a steam engine or reducing the losses on a high-tension transmission line. It deals with human personalities in a complex society. In the final analysis, if the worker has been responsible for certain restrictions of output, it is he who must voluntarily discontinue them. Our part in the process must be an endeavor to banish both the desire and the need for such practices.

Here is room for much inquiry and experiment. The desire to escape toil can be overcome only by some new incentive to effort. The pecuniary stimulus, in the form of piece rates, bonus systems, and profit-sharing, has been tried with varying degrees of success, but few will claim that it offers the ultimate solution. We hear of an "instinct of workmanship" which has not been entirely lost in this age of machinery. We see workers engaged in some public undertaking inspired as an army marching to victory. We watch adventures in co-operation and "industrial democracy" fostering the

enthusiasm of common enterprise. And, not least, we find many a humble laborer cheerfully giving his best in his own small way, with no other motive than the satisfaction of serving his fellows well. Tactfully and sincerely appealed to, these and similar incentives may have potentialities almost undreamed of.

We can hope, too, that the need for restrictive policies is not ineradicable. An intelligent and purposeful study of our industrial institutions may suggest new and less wasteful means for securing to the worker what he regards as his "rights." A steady job, a decent wage, reasonable hours, safe conditions, a chance to rise—these vague terms sum up his demands. None is inherently incompatible with high productivity, though at best we must reach some compromise between material goods and other human values. Our experiments in collective bargaining, shop councils, employee management, and co-operation have not been without the promise of a better day. But we are still far from the millennium when the theoretical community of interest among all the parties to industry shall have been made real.

#### 304. The Limits of Sabotage<sup>23</sup>

BY THORSTEIN VERLEN

Sabotage is not to be condemned out of hand, simply as such. There are many measures of policy and management both in private business and in public administration which are unmistakably of the nature of sabotage and which are not only considered to be excusable, but are deliberately sanctioned by statute and common law and by the public conscience. Many such measures are quite of the essence of the case under the established system of law and order, price and business, and are faithfully believed to be indispensable to the common good. It should not be difficult to show that the common welfare in any community which is organized on the price system cannot be maintained without a salutary use of sabotage—that is to say, such habitual recourse to delay and obstruction of industry and such restriction of output as will maintain prices at a reasonably profitable level and so guard against business depression. Indeed, it is precisely considerations of this nature that are now engaging the best attention of officials and business men in their endeavors to tide over a threatening depression in American business and a consequent season of hardship for all those persons whose main dependence is free income from investments.

<sup>23</sup>Adapted from "On the Nature and Uses of Sabotage," in the *Dial*, LXVI, 342-46. Copyright, 1919.

Without some salutary restraint in the way of sabotage on the productive use of the available industrial plant and workmen, it is altogether unlikely that prices could be maintained at a reasonably profitable figure for any appreciable time. A businesslike control of the rate and volume of output is indispensable for keeping up a profitable market, and a profitable market is the first and unremitting condition of prosperity in any community whose industry is owned and managed by business men. The ways and means of this necessary control of the output of industry are always and necessarily something in the nature of sabotage—something in the way of retardation, restriction, withdrawal, unemployment of plant and workmen—whereby production is kept short of productive capacity. The mechanical industry of the new order is inordinately productive. So the rate and volume of output have to be regulated with a view to what the traffic will bear—that is to say, what will yield the largest net return in terms of price to the business men in charge of the country's industrial system. Otherwise there will be "overproduction," business depression, and consequent hard times all round. Overproduction means production in excess of what the market will carry off at a sufficiently profitable price. So it appears that the continued prosperity of the country from day to day hangs on a "conscientious withdrawal of efficiency" by the business men who control the country's industrial output. They control it all for their own use, of course, and their own use means always a profitable price.

In any community that is organized on the price system, with investment and business enterprise, habitual unemployment of the available industrial plant and workmen, in whole or in part, appears to be the indispensable condition without which tolerable conditions of life cannot be maintained. That is to say, in no such community can the industrial system be allowed to work at full capacity for any appreciable interval of time, on pain of business stagnation and consequent privation for all classes and conditions of men. The requirements of profitable business will not tolerate it. So the rate and volume of output must be adjusted to the needs of the market, not to the working capacity of the available resources, equipment and man power, nor to the community's need of consumable goods. Therefore there must always be a certain variable margin of unemployment of plant and man power. Rate and volume of output can, of course, not be adjusted by exceeding the productive capacity of the industrial system. So it has to be regulated by keeping short of maximum production by more or less, as the condition of the market may require. It is always a question of more or less unemployment of plant and man power, and a shrewd moderation in the unemploy-



ment of these available resources, a "conscientious withdrawal of efficiency," therefore, is the beginning of wisdom in all sound work-day business enterprise that has to do with industry.

All this is matter of course and notorious. But it is not a topic on which one prefers to dwell. Writers and speakers who dilate on the meritorious exploits of the nation's business men will not commonly allude to this voluminous running administration of sabotage, this conscientious withdrawal of efficiency, that goes into their ordinary day's work. One prefers to dwell on those exceptional, sporadic, and spectacular episodes in business where business men have now and again successfully gone out of the safe and sane highway of conservative business enterprise that is hedged about with a conscientious withdrawal of efficiency, and have endeavored to regulate the output by increasing the productive capacity of the industrial system at one point or another.

Where the national government is charged with the general care of the country's business interests, as is invariably the case among the civilized nations, it follows from the nature of the case that the nation's lawgivers and administration will have some share in administering that necessary modicum of sabotage that must always go into the day's work of carrying on industry by business methods and for business purposes. The government is in a position to penalize excessive or unwholesome traffic. So it is always considered necessary, or at least expedient, by all sound mercantilists to impose and maintain a certain balance or proportion among the several branches of industry and trade that go to make up the nation's industrial system. The purpose commonly urged for measures of this class is the fuller utilization of the nation's industrial resources in material, equipment, and man power; the invariable effect is a lowered efficiency and a wasteful use of these resources, together with an increase of international jealousy. But measures of that kind are thought to be expedient by the mercantilists for these purposes—that is to say, by the statesmen of these civilized nations, for the purposes of the vested interests. The chief and nearly sole means of maintaining such a fabricated balance and proportion among the nation's industries is to obstruct the traffic at some critical point by prohibiting or penalizing any exuberant undesirables among these branches of industry. Disallowance, in whole or in part, is the usual and standard method.

The great standing illustration of sabotage administered by the government is the protective tariff, of course. It protects certain

special interests by obstructing competition from beyond the frontier. This is the main use of a national boundary. The effect of the tariff is to keep the supply of goods down and thereby keep the price up, and so to bring reasonably satisfactory dividends to those special interests which deal in the protected articles of trade, at the cost of the underlying community. A protective tariff is a typical conspiracy in restraint of trade. It brings a relatively small, though absolutely large, run of free income to the special interests which benefit by it, at a relatively, and absolutely, large cost to the underlying community, and so it gives rise to a body of vested rights and intangible assets belonging to these special interests.

Of a similar character, in so far that in effect they are in the nature of sabotage—conscientious withdrawal of efficiency—are all manner of excise and revenue-stamp regulations; although they are not always designed for that purpose. Such would be, for instance, the partial or complete prohibition of alcoholic beverages, the regulation of the trade in tobacco, opium, and other deleterious narcotics, drugs, poisons, and high explosives. Of the same nature, in effect if not in intention, are such regulations as the oleomargarine law; as also the unnecessarily costly and vexatious routine of inspection imposed on the production of industrial (denatured) alcohol, which has inured to the benefit of certain business concerns that are interested in other fuels for use in internal-combustion engines; so also the singularly vexatious and elaborately imbecile specifications that limit and discourage the use of the parcel post, for the benefit of the express companies and other carriers which have a vested interest in traffic of that kind.

In what has just been said there is, of course, no intention to find fault with any of these uses of sabotage. It is not a question of morals and good intentions. It is always to be presumed as a matter of course that the guiding spirit in all such governmental moves to regularize the nation's affairs, whether by restraint or by incitement, is a wise solicitude for the nation's enduring gain and security. All that can be said here is that many of these wise measures of restraint and incitement are in the nature of sabotage, and that in effect they habitually, though not invariably, inure to the benefit of certain vested interests—ordinarily vested interests which bulk large in the ownership and control of the nation's resources. That these measures are quite legitimate and presumably salutary, therefore, goes without saying. In effect they are measures for hindering traffic and industry at one point or another, which may often be a wise precaution.

## F. SCIENTIFIC MANAGEMENT AND LABOR

305. Labor and Efficiency<sup>24</sup>

BY FREDERICK W. TAYLOR

It is safe to say that no system or scheme of management should be considered which does not in the long run give satisfaction to both employer and employee, which does not make it apparent that their best interests are mutual, and which does not bring about such thorough and hearty co-operation that they can pull together instead of apart. It cannot be said that this condition has as yet been at all generally recognized as the necessary foundation for good management. On the contrary, it is still quite generally regarded as a fact by both sides that in many of the most vital matters the best interests of employers are necessarily opposed to those of the men. In fact, the two elements which we will all agree are most wanted on the one hand by the men and on the other hand by the employers are generally looked upon as antagonistic.

What the workmen want from their employer beyond anything else is high wages, and what employers want from their workmen most of all is a low labor cost of manufacture.

These two conditions are not diametrically opposed to one another as would appear at first glance; on the contrary, they can be made to go together in all classes of work, without exception, and in the writer's judgment the existence or absence of these two elements forms the best index to either good or bad management.

The only condition which contains the elements of stability and permanent satisfaction is that in which both employer and employees are doing as well or better than their competitors are likely to do, and this in nine cases out of ten means high wages and low labor cost, and both parties should be equally anxious for these conditions to prevail. With them the employer can hold his own with the competitors at all times. Without them both parties may do well enough in busy times, but both parties are likely to suffer when work becomes scarce.

The possibility of coupling high wages with a low labor cost rests mainly upon the enormous difference between the amount of work which a first-class man can do under favorable circumstances and the work which is actually done by the average man.

That there is a difference between the average and first-class man is known to all employers, but that the first-class man can do in most

<sup>24</sup>Adapted from "Shop Management," *Transactions of the Society of Mechanical Engineers*, XXIV (1903), 1343-47.

cases two to four times as much as is done on an average is known to but few, and is fully realized only by those who have made a thorough and scientific study of the possibilities of men.

The writer has found this enormous difference between the first-class and average man to exist in all of the trades and branches of labor which he has investigated, and this covers a large field, as he, together with several of his friends, has been engaged with more than usual opportunities for twenty years past in carefully and systematically studying this subject.

It must be distinctly understood that in referring to the possibilities of a first-class man the writer does not mean what he can do when on a spurt or when he is overexerting himself, but what a good man can keep up for a long term of years without injury to his health, and become happier and thrive under.

The second and equally interesting fact upon which the possibility of coupling high wages with low labor cost rests, is that first-class men are not only willing but glad to work at their maximum speed, providing they are paid from 30 to 100 per cent more than the average of their trade.

The exact percentage by which the wages must be increased in order to make them work to their maximum is not a subject to be theorized over, settled by boards of directors, sitting in solemn conclave, nor voted upon by trade unions. It is a fact inherent in human nature and has only been determined through the slow and difficult process of trial and error.

The writer has found, for example, after making many mistakes above and below the proper mark, that to get the maximum output for ordinary shop work requiring neither especial brains, very close application, skill, nor extra hard work, such, for instance, as the more ordinary kinds of routine machine-shop work, it is necessary to pay about 30 per cent more than the average. For ordinary day labor requiring little brains or special skill, but calling for strength, severe bodily exertion and fatigue, it is necessary to pay from 50 to 60 per cent above the average. For work requiring special skill or brains, coupled with close application but without severe bodily exertion, such as the more difficult and delicate machinist's work, from 70 per cent to 80 per cent beyond the average. For work requiring skill, brains, close application, strength, and severe bodily exertion, such, for instance, as that involved in running a well-run steam hammer doing miscellaneous work, from 80 per cent to 100 per cent beyond the average. Men will not work at their best unless assured a good liberal increase, which must be permanent.

It is the writer's judgment, on the other hand, that for their own

good it is as important that workmen should not be very much overpaid, as that they should not be underpaid. If overpaid, many will work irregularly and tend to become more or less shiftless, extravagant, and dissipated. It does not do for most men to get rich too fast. The writer's observation, however, would lead him to the conclusion that most men tend to become more instead of less thrifty when they receive the proper increase for an extra hard day's work, as, for example, the percentages of increase referred to above. They live rather better, begin to save money, become more sober, and work more steadily. This certainly forms one of the strongest reasons for advocating this type of management.

### 306. The Nature of Scientific Management<sup>25</sup>

BY MAURICE L. COOKE

What we want in any industrial establishment, if we are to reach the highest point in productivity, is to have every individual use his highest powers to the best advantage. This is the final goal of scientific management. It is the goal both for the individual and for society. If you can picture a society in which every unit is using his highest faculties to the best advantage, you will see that it approximates the millennium.

The moment you adopt this as a standard, however, you must frame your organization so that every employee, from the humblest to the highest, is given a chance to exercise his highest powers to the best advantage. He must not only not be hindered, but he must be helped, and helped to the extent of pointing out and developing faculties and powers of which he may have been unaware. Under scientific management we think that we are learning how to do this. Alfred Marshall has called attention to the fact that perhaps half the brains of the world are in the so-called working classes and that "of this a great part is fruitless for want of opportunity." Under the new methods this great storehouse of wealth will be tapped, not we hope for the benefit of the few, but for the benefit of all.

To define scientific management is no easy task. Hugo Diemer says that Mr. Taylor

considers a manufacturing establishment just as one would an intricate machine. He analyzes each process into its ultimate simple elements and compares each of these simplest steps or processes with an ideal or perfect condition. He then makes all due allowance for rational and practical con-

<sup>25</sup>Adapted from "The Spirit and Social Significance of Scientific Management," *Journal of Political Economy*, XXI (1913), 485-87.

ditions and establishes an attainable commercial standard for every step. The next process is that of attaining, continuously, the standard, involving both quality and interlocking, or assembling, of all these primal elements into a well-arranged, well-built, smooth-running machine.

Mr. Taylor says that the philosophy of scientific management is embraced under these four principles:

1. The development of a science in place of "rule of thumb" for each *element* of the work.
2. The scientific selection and training of the workman.
3. The bringing of the science and the scientifically trained workmen together through the co-operation of the management with the man.
4. An almost equal division of the work and the responsibility between the management and the workmen, the management taking over all work for which they are better fitted than the workmen, while in the past almost all of the work, and the greater part of the responsibility, were thrown upon the workman.

Quiet informally, scientific management may be thus defined:

1. It is a definite working policy applicable wherever human effort is put forth.
2. It is the introduction of the laboratory method in everyday affairs.
3. It is the acceptance of the dictates of science instead of those of personal opinion and tradition.
4. It is the establishment of the fact that not to know is no crime—that the crime is not being willing to find out.
5. It is a type of co-operation more intensive than the world has yet seen.
6. It is filling in—not bridging—the chasm between capital and labor.
7. It is making our industrial life square up with the best we know in our personal and social relations.
8. It involves a very radical change in the attitude both of the men and of the management to the work on which they are mutually engaged.

Practically everything that is done in developing scientific management in an establishment has for its object the setting of tasks. A task is simply a fair day's work and—let us not forget—one that can be repeated day in and day out, year in and year out, if necessary, without detriment to the physical, mental and moral well-being of the person performing it. Unless you are able to set tasks you cannot have scientific management.

307. The Attitude of Organized Labor<sup>26</sup>

We are opposed to any system of shop management which requires one man to stand over another, timing him with a stop watch in order to speed him up beyond his normal capacity. In addition to the brutality of such a proceeding, no stop watch time study can possibly be accurate. Every physical act performed by man is preceded by a mental process. The greater the amount of skill required in the work, the greater the mental process preceding the physical expression of it, and there is no method known to efficiency engineers or others by which a time study can be made by a stop watch or any other time-measuring device of the mental process which precedes the physical act. The mental process being a necessary part of the work itself, the failure to make a time study of that operation of the work makes the study inaccurate, and secondly, worthless as a basis for computing compensation.

To establish a bonus or premium system upon such a time study is wrong, induces the workman to toil beyond his normal capacity, and the whole system has a tendency to wear the worker to a nervous wreck, destroy his physical and mental health, and ultimately land him as a charge upon the community in some of our eleemosynary institutions.

*Resolved*,<sup>27</sup> That the Thirty-eighth Annual Convention of the American Federation of Labor reiterate its former position against the introduction of these systems of so-called "scientific management" and urge Congress to restore the language above referred to which was eliminated from the Naval Appropriation bill in the Senate and to incorporate the same anti-Taylor system proviso in the appropriation bills which have carried it heretofore.

308. Modern Industry and Craft Skill<sup>28</sup>

The one great asset of the wageworker has been his craftsmanship. We think of craftsmanship ordinarily as the ability to manipulate skilfully the tools and materials of a craft or trade. But true craftsmanship is much more than this. The really essential element in it is not manual skill and dexterity, but something stored up in the mind of the worker. This something is partly the intimate knowledge of the character and uses of the tools, materials, and

<sup>26</sup>Resolutions passed by the National Convention of the American Federation of Labor, November 22, 1912.

<sup>27</sup>Adopted June 14, 1918.

<sup>28</sup>An editorial with the foregoing caption in the *International Moulders' Journal*, LI (1915), 197-98.

processes of the craft which tradition and experience have given the worker. But beyond this and above this, it is the knowledge which enables him to understand and overcome the constantly arising difficulties that grow out of variations, not only in tools and materials, but in the conditions under which the work must be done.

In the past for the most part the skilful manipulation of the tools and materials of a craft and this craftsmanship of the brain have been bound up together in the person of the worker and have been his possession. It is this unique possession of craft knowledge and craft skill on the part of a body of wage workers—that is, their possession of these things and the employer's ignorance of them—that has enabled the workers to organize and force better terms from the employers. On this unique possession has depended more than on any other one factor the strength of trade-unionism and the ability of unions to improve the conditions of their members.

This being true, it is evident that the greatest blow that could be delivered against unionism and the organized workers would be the separation of craft knowledge from craft skill. For if the skilled use of tools could be secured from workmen apart from the craft knowledge which only years of experience can build up, the production of "skilled workmen" from unskilled hands would be a matter in almost any craft of but a few days or weeks; any craft would be thrown open to the competition of an almost unlimited labor supply; the craftsmen in it would be practically at the mercy of the employer.

Of late this separation of craft knowledge and craft skill has actually taken place in an ever-widening area and with an ever-increasing acceleration. Its process is shown in the two main forms which it has been taking. The first of these is the introduction of machinery and the standardization of tools, machinery, products, and process, which make production possible on a large scale and the specialization of the workmen. Each workman under such circumstances needs and can exercise only a little craft knowledge and a little craft skill. But he is still a craftsman, though only a narrow one and subject to much competition from below. The second form, more insidious and more dangerous than the first, but to the significance of which most of us have not yet become aroused, is the gathering up of all this scattered craft knowledge, systematizing it and concentrating it in the hands of the employer, and then doling it out again in the form of minute instructions, giving to each worker only the knowledge needed for the mechanical performance of a particular relatively minute task. This process, it is evident, separates skill and knowledge even in their narrow relationship. When it is



completed the worker is no longer a craftsman in any sense, but is an animated tool of the management. He has no need of special craft knowledge or craft skill, or any power to acquire them if he had, and any man who walks the streets is a competitor for his job.

There is no body of skilled workmen today safe from the one or the other of these forces tending to deprive them of their unique craft knowledge and skill. Only what may be termed frontier trades are dependent now on the all-round craftsman. These trades are likely at any time to be standardized and systematized and to fall under the influence of this double process of specialization. The problem thus raised is the greatest one which organized labor faces. For if we do not wish to see the American workmen reduced to a great semi-skilled and perhaps little organized mass, a new mode of protection must be found for the working conditions and standards of living which unionism has secured, and some means must be discovered for giving back to the worker what he is fast losing in the narrowing of the skill and the theft of his craft knowledge. It is another problem which the organized workmen must solve for themselves and society.

### 309. Scientific Management and Welfare<sup>29</sup>

BY ROBERT FRANKLIN HOXIE

The more ultimate effects of scientific management upon wages, unemployment, and industrial peace are matters of pure speculation. During the period of transition, however, there can be little doubt of the results. The tendency will be toward a realignment of wages. The craftsmen, the highly trained workers, cannot hope to maintain their wage advantage over the semi-skilled and less skilled workers. There will be a leveling tendency. Whether this leveling will be up or down it is impossible to say. At present the writer believes scientific management is making the relatively unskilled more efficient than ever before, and that they are in general receiving greater earnings. It is evident, however, that the native efficiency of the working class must suffer from the neglect of apprenticeship, if no other means of industrial education is forthcoming. Scientific managers themselves have complained of the poor and lawless material from which they must recruit their workers, compared with the efficient and self-respecting craftsmen who applied for employment twenty years ago.

Moreover, it must not be overlooked that the whole scheme of scientific management, especially the gathering up and systemati-

<sup>29</sup>Adapted from *Scientific Management and Labor*, pp. 133-36. Copyright by D. Appleton and Co., 1915.

zation of the knowledge formerly the possession of the workmen, tends enormously to add to the strength of capitalism. This fact, together with the greater ease of replacement, must make the security and continuity of employment inherently more uncertain. It may not be such in fact, but, if not, the result will be by grace of the employer.

If generally increased efficiency is the result of scientific management, unemployment would, in the end, seem to become less a menace. But during the period of transition we should expect its increase. Not only must the old craftsmen suffer as a result of the destruction of their crafts, but, until scientific management finds itself able to control markets, its increased efficiency must result in gluts in special lines with resulting unemployment in particular trades and occupations. The writer was informed by a leading scientific management expert that one shop in six in a certain industry systematized by him could turn out all the product the market would carry. The result to the workers, if the statement be true, needs no explanation. Scientific management would seem to offer ultimate possibilities of better market control or better adaptation to market conditions, but the experience of the past year of depression indicates that at present no such possibility exists.

Finally, until unionism as it predominantly exists has been done away with or has undergone essential modifications, scientific management cannot be said to make for the avoidance of strikes and the establishment of industrial peace. Strikes seem less frequent in scientific management shops than elsewhere, but this is owing largely to the fact that organized workmen are on the whole little employed. So long as present-day unionism believes that scientific management means the destruction of their organizations, it will continue to oppose it energetically.

It has been said with much truth that scientific management is like the progressive invention of machinery in its effect upon workers and social conditions and welfare generally,—that it gives a new impulse to the industrial revolution and strengthens its general effects and tendencies. A chief characteristic of this revolution has been the breakdown of craftsmanship, the destruction of crafts, and the carrying of the modern industrial world forward toward an era of specialized workmanship and generally semi-skilled or less skilled workmen. Scientific management seems to be another force urging us forward toward this era and practically adapted to function in an age of specialized and unskilled workmanship. Here we glimpse the great problem with which its spread and development confront modern society. No solution or series of solutions offered for this problem can be considered at all which does not meet the needs of such a

situation. It is a long-time problem which requires a long-time solution.

What is really needed, under the circumstances, is not so much repression and direct control as social supplementation and increased knowledge. The main demands are for a frank recognition of the trend of events and for some method of putting back into the worker's life the content which he is losing as the result of increased specialization and the abandonment of the old apprenticeship system. The development of such a method will, of course, take time. In the meanwhile, we need more thorough study and general publicity concerning the true character, policies, and methods of scientific management, its possibilities and limitations; concerning the real character, intelligence, and spirit of those engaged in its application, the qualities and qualifications required by the best social standards for the exercise of this power and responsibility, and the progressive education of scientific management experts and employers, labor and the public, to the needs and requirements of the situation.

### 310. Industrial Physiology<sup>30</sup>

BY FREDERIC S. LEE

In surveying the extraordinary growth of industry during recent decades one cannot fail to be struck by its many-sided aspects, the diversity of its problems, and the variety of human intellects that have been called upon to solve these problems. Industry is not simply an affair of employer and employees; it has its manufacturing aspects, its economic aspects, its engineering aspects, its medical aspects, its chemical aspects, its human aspects, and its efficiency aspects. Quite recently its aspects of efficiency have risen into great prominence. What has been called scientific management has accomplished something in promoting industrial efficiency, but a critical analysis of it reveals its inability to go far in eliminating inefficiency.

The fact must be recognized that in the body of the worker, with its combination of living organs and tissues, undergoing chemical reactions and transforming energy under the direction of a nervous system, we have a very intricate mechanism, upon the proper working of which depends, in large degree, industrial efficiency. The war, with its extraordinary call upon human energies, has emphasized as never before the hygienic or, more properly speaking, the physiological aspects of industrial activity. During the past few years the beginnings of a new science, an industrial physiology, have appeared

<sup>30</sup>Adapted from "The New Science of Industrial Physiology," *Public Health Reports* (1919), XXXIV, 723-28.

and attracted the attention of scientific men and the more sagacious of industrial leaders.

By "industrial physiology" I mean to designate the sum of knowledge pertaining to the working of the human mechanism in industrial activity. It has two objects: First, the scientific one of learning how the industrial worker actually performs his work and what the conditions are under which he can work most efficiently, while at the same time maintaining his body in health and in the best working condition; second, the more practical one of establishing in the factories the conditions which conduce at the same time to the maximum output and the maximum power of the worker. The former of these objects is now being achieved; the latter will be achieved when it becomes clear to both employers and workmen that it is an advantage to both that industrial work be organized on an intelligent basis.

The methods by which industrial physiology are being developed are the recognized methods of all scientific investigation, namely, observation and experiment. The investigations are carried on chiefly in the factories, the workers being used as the subjects and under their actual working conditions, these conditions being changed when it is desired to compare the efficiency of one set of conditions with that of another. Exact measurements of output are made, and, where it is possible, exact tests of the physiological effects of the work are employed. Every effort is made to procure exact data and utilize these as a basis for forming conclusions rather than to rely upon mere opinion and preconceived notion.

Some of the topics that have been or are being investigated and some of the results are the following:

Certain physiological and psychological tests have been employed with workers, and it appears practicable to employ some of these tests in selecting workers and assigning them to jobs.

The output of the successive hours of the working-day in different types of operations have been measured and the daily curves of the output have been plotted. These vary with the kind of operation, but are alike in showing a reduced efficiency as the day proceeds.

Reduction in the length of the working-day is characterized by an increase in output of the successive hours and usually by a total increase in that of the day. The optimum duration of work probably varies with the character of work itself.

The introduction of resting periods in the working spell is accompanied especially when the working-day is long, by a total increase in the day's production. A five-hour working spell, unbroken, is probably always too long.

Overtime following a day of labor is probably inadvisable, as is

also Sunday work following a week's labor. These tend to impair the working power of the worker.

A hot day tends to impair strength and reduce output. Every effort should be made to keep the body of the worker cool.

Night work is, in general, less efficient than day work. Its total output is less, and this, with a long working-night, falls off enormously in the early morning hours. Alternation of periods of night work with periods of day work is more profitable than continuous night work.

Women are capable of a greater variety of industrial occupations than has hitherto been recognized. Their problem is not of their greater or less general efficiency than men, but rather of what type of work they are best fitted for.

Accidents to workers are a great source of inefficiency. They are caused by fatigue, inexperience, speed, insufficient lighting, high temperature, and like factors.

Food and efficiency are directly connected with one another.

A high labor turnover is incompatible with efficiency. It is expensive, entailing high cost of training, and is a serious cause of accidents.

With the ending of the war the problems of industry press for solution more earnestly than ever. One of the most timely of these concerns the physiological aspects of the human machine. Upon us in America there is imposed a grave duty—that of directing investigation along such lines that empiricism and tradition, two obstacles long potent in industrial evolution, shall be cast out and industry shall be placed permanently upon a scientific basis.

## G. THE POLICIES OF UNIONISM

### 311. The Purposes of Trade-Unionism<sup>31</sup>

BY JOHN MITCHELL

In its fundamental principle trade-unionism is plain and simple. Trade-unionism starts from a recognition of the fact that under normal conditions the individual, unorganized workman cannot bargain advantageously with the employer for the sale of his labor. Since he has no money in reserve and must sell his labor immediately, since he has no knowledge of the market and no skill in bargaining, since, finally, he has only his own labor to sell, while the employer engages hundreds or thousands of men, and can easily do without the services of any particular individual, the workingman, if bargaining on his

<sup>31</sup>Adapted from *Organized Labor*, pp. 2-11. Copyright by the American Book and Bible House, 1903.

own account and for himself alone, is at an enormous disadvantage. Trade-unionism recognizes the fact that under such conditions labor becomes more and more degenerate, because the labor which the workman sells is a thing of his very life and soul and being. In the individual contract between the rich employer and the poor laborer, the laborer will secure the worst of it. The individual contract means that the worst and lowest man's condition in the industry will be that which the best man must accept. From first to last, beginning to end, always and everywhere, trade-unionism stands opposed to the individual contract. There can be no concession or yielding upon this point. There can be no permanent prosperity of the working classes, no consecutive improvements in conditions, until the principle is firmly and fully established, that in industrial life, the settlement of wages, the hours of labor, and all conditions of work, must be made between employers and workmen collectively and not individually.

Trade-unionism thus recognizes that the destruction of the workingman is the individual bargain, and the salvation of the workingman is the joint, united, or collective bargain. To carry out a joint bargain, however, it is necessary to establish a minimum of wages and conditions which will apply to all. By this it is not meant that the wages of all shall be the same, but merely that equal pay shall be given for equal work. If some are so willing to be over-rushed as to do more than a fair day's work for a fair day's wage, or are willing to allow themselves to be forced into patronizing truck stores, to submit to arbitrary fines or unreasonable deductions, whereas others would rebel at these impositions, it would result that in the competition among the men to retain their positions, those who were most pliant and lowest spirited would secure the work, and the wages, hours of labor, and conditions of employment would be set or accepted by the poorest, most cringing, and least independent of workers. If the trade-union did not insist upon enforcing common rules providing for equal pay for equal work and definite conditions of safety and health for all workers in the trade, the result would be that all pretense of a joint bargain would disappear, and the employers would be free constantly to make individual contracts with the various members of the union.

The trade-union does not stand for equal earnings for all workmen. It does not object to one man's earning twice as much as the man working by his side, provided both men have equal rates of pay, equal hours of work, equal opportunities of securing work, and equal conditions of employment. What the union insists upon is that certain minimum requirements be fulfilled for the health, com-

fort, and safety of all, in order that the workingmen shall not be obliged to compete for jobs by surrendering their claims to a reasonable amount of protection for their health, and for their life and limb.

The trade-union thus stands for freedom of contract on the part of workingmen—the freedom or right to contract collectively. The trade-union also stands for definiteness of the labor contract. The workingman agrees to work at a wage offered him by his employer, but frequently nothing is said as to hours of labor, periods for meals and rest, intensity of work, conditions of the workshop, protection of the workmen against filthy surroundings or unguarded machinery, character of his fellow-workmen, liability of the employer for accident, nor any of the thousand conditions which affect the welfare of the workman and the gain of both employer and employe. In the absence of an agreement with the union it is in the power of the employer to make such rules absolutely, or to change or amend them at such times as he thinks proper.

The right to bargain collectively necessarily involves the right to representation. Experience and reason both show that a man, who is dependent upon the good will of an employer, is in no position to negotiate with him. Workingmen should have the right to be represented by whomsoever they wish. The denial of the their representatives, the men cannot enjoy the full benefit of collective bargaining; and without the right of collective bargaining, the door is open to the evils of the individual contract. To avoid these calamities the workmen demand "the recognition of the union."

### 312. The Principle of Uniformity<sup>32</sup>

BY ROBERT F. HOXIE

The key to the understanding of union rules and actions is to be found in the fundamental principles and theories of their program. If you understand these thoroughly and the policies to which they give rise, you can generally explain any given rule or act without difficulty; and without that understanding you are almost certain to

<sup>32</sup>Adapted from an unpublished lecture entitled "*The Trade-Union Program*," delivered at the University of Michigan, May 17, 1914. The statements in this paper are general and admit of many exceptions. They constitute a theoretical statement of the tendencies underlying union activities rather than a generalization from such activities. They are not clearly understood even by all unionists.

go astray. In the space available it is barely possible to illustrate in a general way these theories.

Let us, then, by way of illustration, take one of the fundamental principles of business unionism, the principle of uniformity or standardization, and use it as a partial explanation of union policies, demands, and methods. This principle requires that all the men doing the same work use the same kind of tools and materials, work normally the same length of time, and at the same speed, turn out the same quantity and quality of goods, and receive the same rate of wages. The union argument on which the principle rests runs somewhat as follows:

1. Wages and conditions of employment are determined by the relative bargaining strength of the workers and employers of the industrial group.

2. Under competitive conditions the bargaining strength of the employer is greater than that of the individual laborer, because of (a) the superior bargaining knowledge, skill, and waiting power of the employer; (b) the smaller object which he has at stake—pecuniary profits versus life; (c) the presence of an actual or potential oversupply of labor; (d) the increase in bargaining power on the part of the employer in inverse ratio to his industrial and financial strength; (e) the limitation of the bargaining strength of the labor group to the competitive strength of its weakest member.

3. The full bargaining strength of the employer is bound to be exercised against the workers because under competitive conditions the pressure of the consuming public for cheap goods is transmitted through the retailer and the wholesaler to the most unscrupulous employer, who sets the pace; while under monopolistic conditions the relations of the employer and the worker are impersonal.

4. Therefore, allowing the employer to pit his bargaining strength against the bargaining strength of each worker, thus fixing their different rates of work, wages, etc., means the progressive deterioration of the wages and conditions of employment of the group.

5. The only way to prevent this deterioration is to rule out competition by establishing and maintaining the principle of uniformity or standardization, i.e., to require for all the men doing the same work the use of the same kinds of tools and materials, the same working time, the same speed, the same quality of work, and the same output.

Let us see what light this policy throws upon the policies, demands, methods, and attitudes found in the union program. The



main purpose of this principle, as we have seen, is to rule out competition. But competition is possible in regard to the wage rate, hours of labor, or the exertion and output of the individual. To prevent the first the establishment of a standard rate of wages at a fixed minimum is necessary. The prevention of the second requires the fixing of a normal day or week as a maximum. The third, in like manner, necessitates uniformity in the conditions and rate of work. It is obvious that these conditions working together make the standard rate a practical maximum as well as a minimum. Hence there arises the tendency toward dead-line mediocrity.

Competition, however, is possible not only in regard to the wage rate, the hours, and the exertion or output, but also in regard to the safety and sanitation, the comfort and convenience of the shop; the times of beginning and ending work; the arrangement of shifts; the time, place, mode, and character of pay; the materials and tools used; and all the minor details of the conditions of work and pay. Hence, to secure uniformity, there arises the necessity of minute specifications of standards in regard to all the incidents of work and pay, from which no deviation can normally be allowed. This explains a multitude of petty and harassing restrictions, of which employers complain, the validity of which rests, not on their immediate character and effects, but on the validity of the general principle of uniformity.

A large part of the trade-union program is thus seen to be a direct effort to establish specific standards incidental to the principle of uniformity. Another large portion is in the interest of enforcement of conditions essential to their existence.

Let us first consider the latter. It is evident that these standards cannot exist if they are violated with impunity; still successful enterprise demands flexibility. Hence there has grown up a long list of irregularities and violations permitted but charged with penalties. These have the double object of stopping underbidding and of preventing the irregular practices from becoming regularly established. For example, overtime, the doing of extraordinary kinds of work, and the doing of work in irregular ways are allowed, but only on condition of extra pay.

These standards, moreover, are hard to establish and maintain in a thoroughly dynamic industrial state, where new trades are evolving, and new processes are coming in constantly. This in part explains the undoubted tendency of unions to restrict new trades, new machinery, new methods, and new processes in industry—in short, industrial progress.

If we turn to the enforcement of these standards, we shall find at least, in the interests of the principle of uniformity, and are valid that another large block of union policies and demands are, in part if it is valid. The enforcement of these standards means the common rule. But to secure this you must have collective bargaining, or legislation. Collective bargaining implies recognition of the union and all the complex machinery for the making and enforcement of contracts.

Moreover, you cannot enforce these standards unless you control the workers or the working personnel. This, in part, explains apprenticeship regulations, and to the unionist calls absolutely for the closed shop and the control of hiring and discharge of men. It is evident that if you cannot control the men you cannot cut out underbidding in its manifold guise. This is especially true, since the employer is always supposed to be trying to induce it by swifts, bell-horses, secret bonuses, frightening the men, etc.

To enforce uniformity you must also have control over the output of the individual and you must control the processes of production. You must prevent the use of methods of stimulation, such as bonus systems, etc., by the employer. Moreover, you must stop up every minutest loophole for the evasion of the principle by the employer. Hence you must watch him carefully; you must have walking delegates on the job. You must carefully delimit the field of work, and prevent reclassification, so that the employer cannot create exceptions by the use of new men or new work. Here again we find explanation of a great number of harassing detailed demands and rules which the unions endeavor to enforce.

It follows, then, that a large portion of the more specific part of the trade-union program is implied in the principle of uniformity and flows directly from the effort to establish and enforce it.

### 313. The Importance of Collective Bargaining<sup>83</sup>

BY W. JETT LAUCK AND CLAUDE S. WATTS

This growth of the system of collective dealing and bargaining appears upon close scrutiny and study to have been natural, logical, and inevitable; as much so as any other evolutionary process having to do with humankind and human relations. It is as old as—indeed, is a part of—the instinct of self-preservation which is commonly accepted as the first law of nature, and is inherent in the very fact

<sup>83</sup>Adapted from *The Industrial Code*, pp. 104-7. Copyright by Funk & Wagnalls Co., 1922.

that man is a gregarious animal and combines with his kind in the struggle for existence and in the pursuit of all social aspirations. It may be said, therefore, to be one of the fundamental bases of human relations, and it is but natural that, out of the practice of this method of dealing between the component elements of industry, there should have developed a corresponding right to use that method.

It is a right that inheres in the employer no less than in the employee, and upon examination it will be found that the exercise of this right by the employer dates back to the time when the employer used in his business capital in addition to that which he himself owned, and he thus became the agent of more than one group or elements of capital in dealing with his workers; or, to that day when the first employer was confronted with a collective demand from his employees and he joined with other employers in agreeing to the demand, in resisting it, or in effecting a compromise of it.

However, in the assertion and in the exercise of this right the worker has always been at a disadvantage as compared with the employer. Constantly he has been forced by economic necessity to accept the terms of employment prescribed by the employer, to waive his rights, or to suffer their denial. Employers themselves are not immune to the pressure of economic necessity. Their products must be produced at a profit, and they must be produced at a cost that will permit of their sale at a profit in competition with the wares of other producers. The employer was as quick to realize that it was to his advantage to deal with his workers as individuals as the workers were to realize that collective bargaining would best serve their interests, and he was naturally inclined to press this advantage. The struggle was the more unequal because capital is more cohesive than labor, because the employer's existence from day to day is not dependent upon his securing the labor of any one worker or group of workers, while the worker must have the daily job in order to provide the daily bread for himself and those dependent upon him; and because, as a rule, the employer has more intelligence and a higher order of acumen in driving bargains. Then, too, until a comparatively recent time, property rights were placed before and above human rights and civilized society was organized on a purely capitalistic basis.

The labor movement, therefore, from its beginning, has been directly or indirectly a constant struggle to establish the right of collective bargaining. Gradually, as production took on large-scale proportions and as constantly larger aggregations of capital and larger numbers of workers were brought together in single plants or establishments, there developed a necessity for collective dealing that employers recognized and conceded. With hundreds, thousands, and

even tens of thousands of workers in one unit of industry, personal contact between the employer and the individual worker became impossible, and group relations were established inevitably.

So, today, while the practice of collective bargaining does not prevail universally, the right is almost universally conceded, and the present controversy and struggle is one over a definition of collective bargaining: the method by which it shall be carried on.

In this struggle, the position of labor is clear and unmistakable and there are no differences or graduations of opinion among the workers. Labor concedes and does not seek to limit or to restrict in any manner the right of employers to bargain collectively. Labor demands the right of the workers to bargain collectively through representatives of their own choosing, without any limitations or restrictions.

On the other hand, the position of capital is not so clearly defined, nor is there such unanimity of thought and purpose. Capital is of one mind only as to its own right to bargain collectively; as to the right of the workers there are wide divergences of opinion and of practice among employers.

There are employers, perhaps comparatively few in number, who deny that the worker has any right of collective bargaining, and who refuse to deal collectively with their employees. They arrogate to capital complete control of industry and sole determination of all the multifold conditions of labor. They insist that the employment of labor is strictly a matter of individual contract, the terms of which are fixed by the employer and accepted by the employee when he goes to work, and that changes in the terms of this contract can be negotiated only by the individual worker for himself alone.

There are other employers who concede the right of collective bargaining as demanded by the workers without any reservations whatsoever. Closely identified with this group is another which concedes the right, but insists that this must not be construed as limiting the right of any worker to deal directly with his employer if he so chooses. The difference between these groups is so slight that they may be considered as one.

The third group, and unquestionably it is predominant in American industry at the present time, concedes to the worker the right of collective bargaining, but reserves to the employer the right to deal or to refuse to deal with representatives of his employees who are not themselves included among his employees. The effect of this reservation is to restrict or to prevent collective bargaining through trade-unions. Most of the employers who belong in the first group—those who deny the right of collective bargaining to the

workers—conceal their real views and practices by assenting to the position taken by this third group. The contest is thus between all labor, supported by a numerically small but influentially large group of employers, on the one side, with a large majority of the employers on the other.

#### 314. The Rule of Apprenticeship<sup>34</sup>

The entrance to a trade must necessarily be through a period of instruction and practice. In the old days the learner was legally bound to a master, by whose side he worked, from whom he received personal instruction in the craft, and in whose house he usually lodged and ate.

The growth of the great industry has done away with apprenticeship of the old type. There are no longer masters who can care for apprentices and give them personal instruction. The custom of legal indenturing has almost disappeared. It is a custom which the labor organizations, so far as their attitude can be judged from their formal expressions, look back to with unanimous longing. A surprising number of the unions even to this day have in their written constitutions expressions of desire that suitable laws for the indenturing of apprentices be enacted, and that the custom of indenturing be renewed and enforced.

The unions complain that under existing conditions it too often happens that trades are not taught or learned at all. A boy is set to feeding a machine, and feeds it day by day and month after month. He is gradually advanced from simpler to more complicated operations. He remains, however, a tender of machines, and never becomes an artisan. The evil of this condition, from the standpoint of the union, is plain enough. The workman of former days spent years in acquiring a general and thorough knowledge of a craft. He is in danger of being replaced by a set of workmen, none of whom has passed through his training or has acquired such skill as his, each of whom is only capable of tending a machine which has usurped a part of his work, but all of whom together threaten to make his skill industrially unnecessary and to deprive his training of its value. Machinery and the division of labor substitute low-grade for high-grade workmen. Though wages for the same grade of skill may be maintained, or may even rise, wages to the workmen actually engaged upon a given product tend, it is declared, to fall.

The unions, representing the interests of the workmen already

<sup>34</sup>Adapted from the *Report of the U.S. Industrial Commission*, Vol. XIX (1901).

engaged in the trades, could not fail, therefore, to desire the maintenance of a system of apprenticeship. Though apprenticeship enforced by law is beyond their reach, many of the stronger unions are able to maintain something like it, by their own power, within the spheres of industry which they control. Wherever it is possible the unions require that entrance to their crafts be through an apprenticeship of three, or four, or five years. They require also that the learner be not kept upon a single specialty, but that he be given a broad and thorough knowledge of the trade.

It is probable that the immediate interest of the union leads them in this respect to combat in some degree the natural evolution of industry. It may be that they put greater restrictions upon the division of labor than the industrial interest of society requires. There is little demand for men who are capable of making a complete shoe. It is high skill and dexterity in some one minute part of shoemaking which is called for by modern conditions. Something may, however, be said from the higher social standpoint in favor of the broader training which the unions try to insist on. It must be admitted that the man who has spent four years in acquiring a general knowledge of the machinist's trade in all its branches is likely to be a broader man and a better citizen of the Republic than he who has simply pushed pieces of iron between the jaws of a machine.

There is another kind of apprenticeship rule which is subjected to more frequent and severer criticism. This is the restriction of the number of apprentices. It is a very common policy among unions which have strength enough to enforce it to forbid employers to take on more apprentices than a certain limited number, generally fixed in some definite proportion to the number of journeymen employed. The purpose of this policy is unquestionably to diminish the competition for employment, and so to make the employment of the present members more continuous and to keep their wages higher. But the partial exclusion of American youth from the skilled trades is felt by outsiders to be not only unjust to the individuals whose choice of an occupation is restricted, but in broader ways injurious to society. There necessarily results, it is argued, an increased overcrowding of the less skilled occupations, and of those in which no such artificial restrictions exist.

The restriction of apprenticeship cannot be introduced except in trades in which the workmen have already obtained, through their skill and their organizations, a considerable strategic advantage, and presumably a relatively high rate of wages. A forcible exclusion of new recruits from such trades results in a forcible injection of an

abnormal number of recruits into other occupations. These other occupations are presumably, upon the average, already more crowded, and subject to lower wage rates and to worse conditions. The artificial and abnormal increase of recruits to them tends still further to lower their wages and their conditions of employment.

The arguments with which the unions support the restrictive policy are based in part upon the desirability of thorough instruction in a trade which has already been referred to. It is declared that, if the hiring of boys is absolutely free, the less scrupulous employers get boys to do a large part of their work. Such employment does not amount to an apprenticeship. It is not meant, even in a subordinate degree, to teach a trade. The hiring of an excessive number of boys, it is maintained, results in inferior work, and so in injury to the public. But, worse than that, it gives us idle men as well as busy children. The natural breadwinners walk the streets, while boys who should be in school take their places at the bench and the machine. The employers who are willing to follow such a policy are able, by means of their unfairly cheap labor, to underbid their competitors, and force them out of business, or compel them to adopt the same injurious tactics.

### 315. The Economics of the Closed Shop<sup>35</sup>

BY FRANK T. STOCKTON

In recent popular discussions of the closed shop much emphasis has been put upon its uneconomical character. The charge is made that the demand for the exclusive employment of union men, by interfering with the right of an employer to "run his own business," makes high efficiency impossible. This argument is based on the fact that the employer, under the competitive system, is alone responsible for the successful conduct of business undertakings. If he fails to produce as well and as cheaply as others do, the loss is his. It is necessary, therefore, for the most economic conduct of business that the employer "should have power to order his own affairs." He "should not be influenced by any other consideration in the hiring of men than the ability, fitness or loyalty of the applicant." At the same time he should be free to reward exceptional workmen and to discharge those who are inefficient or insubordinate. He should be the sole judge as to the kind of machinery, tools and material to be used. Only in this way, it is argued, can the employer secure that "effective discipline" which is essential in bringing about the "highest measure of success in industry."

<sup>35</sup>Adapted from *The Closed Shop in American Trade-Unions*, pp. 165-75. Copyright by the Johns Hopkins Press, 1911.

The "essence" of the open shop is that the employer is entirely free "to hire and discharge." The closed shop, on the other hand, denies him the "right to hire and discharge." If the employer wishes to hire competent non-union men, he is prevented from procuring their services if they cannot or will not obtain union membership.

The employer complains that under the closed shop, instead of being able to secure workmen regardless of whether they are union or non-union, white or black, Catholic or Protestant, Jew or Gentile, he is compelled to draw from a definitely fixed labor market. Very often, too, this market is severely limited by the refusal of the unions on one ground or another to admit competent workmen to membership. He cannot hire members of other unions who are competent to do the work because this will at once involve him in a jurisdictional dispute. One trial is enough to demonstrate the fact that members of rival unions tolerate each others' presence less than they do that of non-unionists. There is then no practicable way in which he can secure additional help when his work increases except by bidding for workmen against other union employers. It is also said that the closed shop serves to prevent the discharge of inefficient employees.

Another evil attributed to the closed shop is that it establishes a minimum wage which becomes virtually also a maximum wage. This is said to produce a disastrous "dead level" of efficiency throughout an establishment and to discourage effort. Accordingly union control is declared to be "absolute death to individual effort and ambition," and to cause the degeneration of "mental and moral fiber." Restriction of output is the direct result of such conditions. Especially harmful does the closed shop become, in the opinion of its opponents, when a union requires foremen to obey its rules and to serve the union rather than the employers. All closed-shop unions, it is represented, "define the workman's rights but say nothing of his duties. They destroy shop discipline and put nothing in its place."

To these indictments the advocates of the closed shop have made vigorous rejoinder. They assert that while the unions do not allow employers to "victimize" their members, they do not interfere otherwise with the "right to hire and discharge" as long as all persons who are hired become union members. It is also flatly denied that the minimum wage is usually the maximum, and that production is restricted in closed shops.

The reconciliation of these conflicting statements of facts is possible. The opponents of the closed shop in discussing its economic effects always assume that the closed shop is everywhere the same, and take as typical those unions in which the restrictions on employ-



ment are most severe. The advocates of the closed shop assume as typical those unions in which the restrictions are mildest. It will be noted that in this respect the unions vary widely. In the majority of closed-shop unions, however, the employer is allowed to hire non-unionists when competent unionists are not available, or even in many unions when they are available. It is also customary to allow such non-unionists to work a certain period in a shop before being required to join the union. There is little basis for the claim, therefore, that employers are restricted to hiring union men only. It is true that "scabs" and members of rival unions are rarely allowed to work. "Scabs," however, form but a small part of the men in any trade, and agreements between rival unions have now to some extent solved the problem of jurisdictional disputes.

If the union itself is closed, union employers have no means of obtaining additional help when their business increases. The closed union, however, although it is usually found with the closed shop, is not identical with it. To say that no more members shall be admitted to a union is an entirely different thing from saying that union men shall not work with non-unionists.

All unions that have advanced beyond the most rudimentary stage enforce a minimum wage. The tendency to uniformity and a "dead level" growing out of the existence of the minimum wage can only be connected with the closed shop through some restriction on the right to hire and discharge. If the union has a compulsory waiting list, it is easy to see how the minimum wage may become the maximum wage. However, compulsory waiting lists are established in very few unions. Similarly, restriction of output is connected with the closed shop only through the waiting list. A great part of closed-shop unions do not have waiting lists.

It is also charged that the joint and extended closed shops lead to demands upon employers. When satisfactory conditions have been obtained in one trade, the men may be called out on strike because "unfair" material is used, or because the open shop exists in an allied trade. Grievances "manufactured outside the shop" are thus said to be constantly arising. Complaint is also made that the closed shop is responsible for many unnecessary shop rules which virtually deprive the employer of control over his business. One writer has gone so far as to say that "the amount of restriction which it may be expected to find in 'closed shops' will certainly amount to one-third of what the output should amount to." Statements have frequently been made that the open shop has brought business prosperity to different communities.

Taking up the last of these contentions first, the unions allege that closed-shop agreements are of distinct advantage to employers. In open shops of most trades the employer is said to be constantly harassed with complaints from individuals. In closed shops all grievances must first be referred to the union, which acts upon many of them unfavorably. It is equally undeniable that most unions which have opportunity to enforce the extended or the joint closed shop have not hesitated at times to strike even when all their demands in the particular shop have been satisfied.

The unions have also denied in a general way that their shop rules have been unduly restrictive. As a matter of fact, the great open-shop movement which began in 1901 was caused primarily by the rapid increase in rules regulating the number of apprentices, the kind of machinery that should be used, the method of shop management, and the like. The connection between the closed shop and arbitrary shop rules is close, but the two are not identical. Arbitrary rules can rarely be enforced except in closed shops. If the union is strong enough to secure the one, it can, if it sees fit, enforce the other. Obviously, however, a closed-shop union need not, and many of them do not, have hurtful shop rules.

The defenders of the closed shop have tried to show that the closed shop is an advantage to an employer. In the first place, they claim that the closed shop protects fair-minded employers from "cut-throat competition." If an industry is thoroughly unionized, every manufacturer or contractor can tell precisely what his competitors are paying in wages. As wages form the largest item in the average employer's expense account, it therefore becomes possible for him to "figure intelligently on his work," something which he "could never feel certain of were the open shop to prevail." The same shop rules also apply in all union establishments. Under the open shop not nearly the same uniformity in competitive conditions can be secured. The closed shop is a device absolutely essential to the rigid and wide enforcement of union rules.

Secondly, those who uphold the closed shop affirm that it tends to create a greater *esprit de corps* among the men than the open shop does. Union and non-union men represent two diametrically opposed ideas. The first stand for collective, the second for individual action. Consequently, there is constant conflict between the two in the endeavor to obtain control over a shop. Because his men do not co-operate, the employer is likely to lose money. Therefore as a business necessity open shops must become either union or non-union. That there should be ill-feeling between union and non-union men is easily understood when we consider why unions desire

the closed shop. Non-union men are the economic enemies of unionists as long as employers resort to individual bargaining or express a dislike for full union control. In particular, efforts are put forth to make the employment of "scabs" unprofitable.

Finally, unionists say that the closed shop is advantageous to employers because in many unions it carries with it the privilege of using a label that has a distinct market value. No union solicits work for an open shop. A label, however, is an advantage to an employer only under certain conditions. It can be used to best advantage on articles largely purchased by the laboring classes. That a label increases sales on such goods is evidenced by the fact that manufacturers, solely for the purpose of obtaining the use of the label, have often asked that their establishments be unionized. The labor journals not infrequently contain statements from employers that the closed shop is a "good business proposition." But the label rarely effects an increase in the demand for expensive goods or for articles sold to women. It is evident, therefore, that the number of employers who can find an advantage in the use of the labels is small relative to the total number of employers.

To sum up the arguments against the closed shop on the ground that it affects unfavorably the economic conduct of industry, it may be said that the crux of the question is whether or not the "right to hire and discharge" is unduly restricted under the closed shop. The employer may enjoy the use of a valuable label and may be placed on a "fair competitive basis" with other employers. Individually the employer may reap a gain. But in the long run industry will be carried on less efficiently if by waiting lists or other restrictive devices the union interferes with the employer's hiring and discharging his working force in accordance with his best judgment.

### 316. The Ethics of the Closed Shop<sup>80</sup>

BY JAMES H. TUFTS

In certain industries in which the workmen are well organized they have made contracts with employers which provide that only union men shall be employed. The psychological motive for the demand for the closed shop is natural enough; the union has succeeded in gaining certain advantages in hours or wages or both; this has required some expense and perhaps some risk. It is natural to feel that those who get the advantage should share the expense and effort, and failing this, should not be admitted to the shop. If the

<sup>80</sup>Adapted from *Ethics*, by John Dewey and James H. Tufts, pp. 559-61. Copyright by Henry Holt & Co., 1909.

argument stopped here it would be insufficient for a moral justification for two reasons. First, joining a union involves much more than payment of dues. It means control by the union in ways which may interfere with obligations to family, or even to the social order. Hence, to exclude a fellow workman from the opportunity to work because he—perhaps for conscientious reasons—would not belong to the union, could not be justified unless the union could make it appear that it was maintaining a social and not merely a group interest. Second, in some cases unions have sought to limit output. In so far as this is done, not for reasons of health, but to raise prices, the union is opposing the interest of consumers. Here again the union must exhibit a social justification if it is to gain social approval.

On the other hand, it may be noted that the individualist who believes in the competitive struggle as a moral process has no ground on which to declare for "open shop." Exactly the same principle which would permit combination in capital and place no limit on competitive pressure, provided it is all done through free contracts, can raise no objection against combinations of laborers making the best contracts possible. When a syndicate of capitalists has made a highly favorable contract or successfully underwritten a large issue of stock, it is not customary under the principle of "open shop" to give a share in the contract to all who ask for it, or to let the whole public in "on the ground floor." Nor are capitalists accustomed to leave a part of the market to be supplied by some competitor for fear such competitor may suffer if he does not have business. When the capitalist argues for the open shop upon the ground of freedom and democracy, it seems like the case of the mote and the beam.

An analogy with a political problem may aid: Has a nation the right to exclude (or tax heavily) goods or persons from other countries? May it maintain a "closed shop"? The policy of the American colonists and of the United States has varied. The Puritans maintained a "closed shop" on religious lines. They came to this country to maintain a certain religion and polity. They expelled several men who did not agree with them. The United States excludes Chinese laborers, and imposes a tariff which in many cases is intended to be prohibitive against the products of other countries. This is done avowedly to protect the laborer, and in so far as it is effective it closes the shop. The maxim, "This is a white man's country," is a similar "closed shop" utterance. On moral grounds the non-union man is in the same category as the man of alien race or country. What, if anything, can justify a nation or group from excluding others from its benefits? Clearly the only conditions are

(1) that the group or nation is existing for some morally justifiable end, which (2) would be endangered by the admission of the outsiders. A colony established to work out religious or political liberty would be justified in excluding a multitude who sought to enter it and then subvert these principles. If a union is working for a morally valuable end, e.g., a certain standard of living which is morally desirable, and if this were threatened by the admission of non-union men, the closed shop would seem to be justified. If the purpose were merely to secure certain advantages to a small group, and if the open shop would not lower the standard but merely extend its range of benefits, it is hard to see why the closed shop is not a selfish principle—though no more selfish than the grounds on which the tariff is usually advocated.

## H. THE WEAPONS OF INDUSTRIAL CONFLICT

### 317. The Function of the Strike<sup>37</sup>

BY JOHN MITCHELL

The normal condition of industry is peace. The average workman, engaged in industries in which strikes occur, loses less than a day a year in this manner. A strike lasts upon the average about twenty-three days, but the average employer carries on his business for thirty years without a strike. The average lockout lasts ninety-seven days, but of a thousand establishments, less than two declare a lockout in the course of a year.

A strike is simply a method of bargaining. If the grocers of a city would refuse to sell their sugar for less than seven cents a pound and the customers would refuse to pay more than six, exactly the same thing would occur as happens in an ordinary strike. A strike does not necessarily involve any form of bitterness; it merely represents a difference between what the buyer of labor is willing to offer, and what the seller of labor is willing to accept. Until the buyer and seller of an ordinary commodity agree as to price and conditions no sale can be effected. Until the wages and conditions of work are agreed upon and acceded to by both employer and workman, the industry must stop.

Strikes thus result from a failure to make a bargain or contract by men who are free to contract. Strikes cannot exist before freedom of contract is accorded. The present conception of a strike is that of workmen and employers exercising their undoubted right to

<sup>37</sup>Adapted from *Organized Labor*, pp. 299-306. Copyright by the American Book and Bible House, 1903.

refuse to enter into contracts where the conditions are not satisfactory to them.

It is frequently stated that trade-unions desire strikes because they are organized for that purpose. This is not true. The trade union is organized for the purpose of securing better conditions of life and labor for its members, and, when necessary, a strike is resorted to as a means to that end. The same conditions which cause the creation of trade-unions are equally answerable for the constant demand for improved conditions for the working class, which demand frequently voices itself in strikes.

Strikes are to be avoided in all cases where the object desired can be obtained by peaceful negotiation. There is nothing immoral, however, in the workingman's striking, just as there is nothing immoral in his wanting higher wages.

### 318. The Utility of the Strike<sup>38</sup>

BY FRANK JULIAN WARNE

A strike is simply a piece of industrial machinery, if it may be so termed, which the organization of the trade-union provides for the attainment of well-defined and laudable objects. Its operation does not necessarily mean the violation of law, or the destruction of property, or the taking of human life. All these, where in evidence, are unforeseen incidents to the conduct of a great strike for any long period, and are the manifestations of aroused human passion and class hatred. No one would question the use of a revolver in the hands of a husband defending his wife and children and home from the violation of its sanctity by outlaws, but most of us would condemn the employment of the same weapon in the hands of the outlaws for the accomplishment of their designs. Yet the weapon in both cases is a revolver. So it is with the strike, it is simply a weapon for the attaining of certain well-defined ends. In the hands of men defending their standard of living from the cupidity and inhumanity of particular members of the employing class, the strike is of the very greatest social value. But like the revolver, it can be misused, as in the case of self-seeking individuals masquerading under trade-union principles, but because of that misuse the weapon should not be condemned. It is no more possible for the trade union to prevent the strike from falling into the hands of those who misuse it, than it is for the law to prevent revolvers from coming into the possession of outlaws. The strike has per-

<sup>38</sup>Adapted from *The Coal-Mine Workers*, pp. 154-58. Copyright by Longmans, Green & Co., 1905.

formed and will continue to perform a most useful function in the progress of the trade-union movement, and consequently in the onward march of American civilization.

It is true that the course of the labor movement has been marked by the taking of human life and the destruction of property, just as has been the case in the creation of the state and the establishment of the church. The why and the wherefore are easily to be explained in the theory of the adjustment of the principles of new institutions to those created for society by older established ones. This is not said as an apology for the taking of human life in strikes. No one regrets this manifestation of the progress of the trade union more than does the writer, and yet if he had to choose between preserving the lives that have been so lost and retaining the trade-union as an institution, it would not be in favor of the former. This decision would be made in the firm belief that in the attainment of its objects—in throwing more safeguards around the workingman, especially in hazardous employments, in securing better sanitary arrangements in factories and mills, in preventing the employment of children at tender ages, in securing higher wages, in reducing the hours of employment, in raising the standard of living, and in innumerable other ways—in these directions the trade-union is saving for society more lives than have been taken in all the industrial conflicts of which history gives any record.

The strike justifies itself either as a weapon of offense or defense in the protection, as a last recourse, of the standard of living of the American workingman. It is, economically, simply the refusal of a number of workingmen, usually organized in an association, to sell their labor for less than a stipulated price or to work under other than specified conditions of employment, coupled with the refusal of the purchaser of that labor—the employer—to accede to the demands.

### 319. The Striker and the Worker<sup>89</sup>

BY SOLON LAUER

I am perfectly willing that you should quit your job, whenever you do not like it. You may quit individually, or you may all quit by agreement. It may cause your employers and us, the public, much inconvenience and expense; but I do not see how we can refuse you that right if you choose to exercise it.

But there your rights cease. If, now, your employers can find

<sup>89</sup>From *Social Laws*, pp. 189-90. Published by the Nike Publishing Co., 1901.

other men to take your places, why shall they not do so? Have not these men as good a right to work as you have to refuse to work? And will you march upon them with stones and clubs, and assault them with dynamite, in order that you may carry your point with your employers? When you play the dog in the manger, my brothers, there is nothing for it but to beat you into submission. Eternal justice, seated calm and impassive above all our petty quarrels, demands it. If the machinery of justice be not wholly wrecked and ruined here below, it must be set in motion against your selfish plot.

This is not *my* affair. I can get on without your cars. Legs were before electrics. If there were nothing but my interests involved, or those of my neighbors, you and your employer should sit growling at one another, or fly at each other's throat, until one or other were wholly vanquished and demolished. But there are the rights of man to be considered; yea, the rights of the workingman, which ought to be most dear to *your* hearts. You do not want these jobs on the present terms. These men *do* want them, having until now none at all, or worse ones. Shall their rights be ignored and violated, that you may carry your point?

### 320. Wanted—Jobs Breaking Strikes<sup>40</sup>

We break strikes—also handle labor troubles in all their phases. We are prepared to place secret operatives who are skilled mechanics in any shop, mill or factory, to discover whether organization is being done, material wasted or stolen, negligence on the part of employees, etc. etc. . . . We guard property during strikes, employ non-union men to fill the places of strikers, fit up and maintain boarding-houses for them, etc. Branches in all parts of the country. Write for references and terms. The Joy Detective Agency, Incorporated, Cleveland, Ohio.

### 321. The Efficacy of Secret Service<sup>41</sup>

Secret service properly applied with the right men correctly placed can be made extremely profitable when conditions are studied and co-operation given. Such service is our specialty, and for that reason *we maintain practical men of all trades and occupations, both union and non-union*. In their daily reports they suggest improve-

<sup>40</sup>Adapted from an advertisement appearing in *American Industries*, August 15, 1907.

<sup>41</sup>This letter is alleged to have been sent out by the William J. Burns Detective Agency. Quoted from Laidler, *Boycotts and the Labor Struggle*, p. 295.



ments and new ideas; *also detail the agitating, dishonest, non-producing, and retarding conditions.*

Our operative, when engaged by you, is, to everyone but yourself, merely an employee in your establishment, and whatever he receives as wages is credited as part payment for his detective service. Daily typewritten reports are mailed to our clients. These operatives are continually under direct supervision of the management of this agency.

Within the heart of your business is "where we operate, down in the dark corners, and in out-of-the-way places that cannot be seen from your office or through your superintendent or foreman.

If it is of interest to you to know today what occurred in your plant yesterday, and be in a position to correct these faults tomorrow, we would be pleased to take the matter up with you further, and respectfully ask an interview for one of our representatives.

### 322. A Typical Boycott<sup>12</sup>

BY A. J. PORTENAR

It was my fortune to take a very active part in the boycott instituted against the products of the Butterick Company by Typographical Union No. 6 in 1906, and later carried on by the International Typographical Union. This boycott was, I verily believe, better organized, more determined, and more damaging to the parties it was aimed at than any other I have knowledge of, not excepting that against the Buck Stove and Range Company, which is more widely known only because of the adventitious circumstances that brought the highest officials of the American Federation of Labor into court. Not only in the United States and Canada, but in Cuba, Germany, and Australia, the International Typographical Union cut into the sales and captured the customers of the Butterick Company. Wherever a typographical union was organized, there, in greater or less degree, the boycott was pushed. The expected court proceedings were in evidence at all times. There were arrests, injunctions, actions for criminal contempt. In short I doubt if a more thorough trial of the efficiency of the boycott has ever been made.

What about results? That the Butterick people were considerably damaged they themselves admitted. Eventually the Butterick house was unionized again, but it is not possible for us to say to what extent the boycott was responsible for that consummation. It is within my knowledge, however, that it had been decreasing in intensity for

<sup>12</sup>Adapted from *Organized Labor*, pp. 90-92. Copyright by the Macmillan Co., 1912.

two years before an agreement with the company was reached, in 1911, and that at the time of the settlement the boycott was practically dormant.

I was very active in this matter, and from the experience thus gained I have reached definite conclusions. We expended a large amount of money; how large I do not know. There was a continuous distribution of printed matter and of comparatively expensive novelties bearing appropriate inscriptions. There were speakers sent to tour the country. There was an organizer whose sole duty it was to further the boycott. There was a prominent lawyer engaged by the year. So far as money could compass our object, we were not niggardly. But money is only one of the essential factors a union needs in the conduct of an affair of this kind. Far more than money, it must have the enthusiastic devotion of its members to the continuous, laborious, and unpleasant work needful to make the expenditure of money effective. This, with a few exceptions, I found it impossible to get. Even these few, in the course of time, finding themselves unsupported by the great majority, began to get lukewarm, and at last ceased to labor in a field, so vast and so deserted. It was not that we had no success; the Butterick Company is the best witness to the contrary. But it is scarcely believable how unremittingly we had to labor to save what we had done one day from becoming useless the next. This fact eventually led to the abandonment of the boycott and the slow recovery by the Butterick Company of the ground it had lost. Therefore my opinion is that no boycott can completely and permanently accomplish the result sought, and very few will do nearly so much in that direction as the one here spoken of, which finally became a failure.

### 323. Ostracism as an Industrial Weapon<sup>43</sup>

BY FRANK JULIAN WARNE

In controlling the ordinary supply of labor in the industry, committees of union men visit personally every man employed who has not already been captured by the organizers, and his position is definitely ascertained. This is one of the most important uses of picketing, by means of which men are met on their way to and from work. To the employees continuing at work the pickets at first have recourse to the powers of friendly and peaceable persuasion, but if these fail to induce the men to join the union, or, if not this, at least to remain away from the work, then upon the non-union men are

<sup>43</sup>Adapted from *The Coal-Mine Workers*, pp. 160-65. Copyright by Longmans, Green & Co., 1905.

brought to bear social forces verging upon lawlessness, and overstepping the safeguards the state has thrown around individual liberty, which only a strong public sympathy with the cause of the union will support. The most important of these social forces is ostracism.

Ostracism is a stronger social force in maintaining a high standard of personal conduct than most of us realize. It means banishment or exclusion from social intercourse or favor, and is usually employed by a particular group against members of its own class or craft. Its most effective weapon is some term of reproach coined for the purpose. Lawyers, for example, who do not come up to the standard set for that profession by its dominant group, are ostracized and termed "shysters." So it is with the medical profession; physicians engaged in questionable practices which the dominant group denounce are ostracized by the more reputable practitioners with the reproachful term "quack." The same social force is at work among the industrial classes. Union men set a standard as to wages and conditions of employment in a particular industry, and those workmen who fall below that measurement, in offering their labor for a less price, are ostracized and denounced as "scabs." Whether the group be doctors or lawyers or workmen, whatever it adopts as the standard of measuring conduct along particular lines is sooner or later taken up by the broader social grouping in the community and accepted as its standard of judgment. This is particularly and strikingly true of a community closely identified with an industry the livelihood of whose members depends upon the industry's activities and in which a dominant group (usually members of a trade-union) creates the industrial standard. This explains the attitude of hostility an industrial community exercises towards the "scab." It explains, also, perhaps, how men far removed from the influence of the working classes can look upon the "scab" as a hero.

The social force of ostracism, put into operation by the working of the trade-unions, is directed, and particularly so in strike times, not only against the "scab" himself, but also along all those channels of social relations affecting him and which might have influence upon him in bringing about action conformable to the standard of the dominant group. The strength of this weapon in the strike of the anthracite-mine employees in 1902 caused union men and their families to refuse to associate with the workman who continued his employment in the mines; it expelled a prominent and otherwise highly respected citizen from a benevolent society which had for its object the assisting of sick members and the defraying of a part of the funeral expenses of those who died, and of which he had been

a member in good standing for more than twenty-seven years; it caused children of striking mine workers not only to refuse to attend school of a woman teacher whose aged father was a watchman at one of the mines, but they also demanded that she be discharged. Children of union miners would not attend Sunday-school with their former playmates whose relatives continued at work; members of the Lacemakers' Union employed at a silk-mill refused to work alongside girls whose fathers and brothers would not strike; clerks were dismissed from stores and business establishments because they were related to men who continued at work in the mines; even promises of marriage were broken through relatives of one or the other of the contracting parties being non-union workers. The "scab" was not infrequently held up in public scorn and ridicule by the publication of his name in the "unfair list" of the newspapers in the mining towns as being "unfit to associate with honorable men;" he was represented by name on signs attached to effigies dangling from electric light, telegraph, and telephone poles and wires and from trees in front of his home and along the highways and streets; a grave in his yard with his name placed upon the board at the head to represent a tombstone not infrequently confronted him; the sign of "the skull and cross-bones" was painted on his house, and in innumerable other ways, conceivable only by workmen whose imaginative faculties have been aroused by the desire for persecution of others who oppose a cause which is so vital to their home and family, was created a public sentiment against the non-union employee.

### 324. The Scab<sup>44</sup>

BY DYER D. LUM

The non-unionist is but an indirect enemy; in withholding his aid he by so much weakens the common line of defense. Though often his acts may directly, without conscious effort, aid the enemy, he need not be a traitor to his fellow toilers. Every great movement has some object of superlative loathing; its Judas Iscariots, its Benedict Arnolds, its Pigotts, its paid spies and informers, its Pinkerton thugs—men deaf to all honor, blind to mutual interest, dead to all but the miserable cravings of their shriveled souls. In the industrial conflict the instinct of workers has significantly termed its type of this species "scab!" Loud have been the appeals for sympathy with the workman who falls out from the line to better his con-

<sup>44</sup>Adapted from *Philosophy of Trade Unions*, pp. 13-14. Published by American Federation of Labor, 1892.

dition, or relieve the distress of a starving wife and family. But to prevent just such contingencies is the mission of the union. One who is forced to the necessity of wage labor and refuses to share the common danger, but either openly or stealthily goes over to the enemy to accept his terms, is a deserter. By his act he has sundered the social bonds of mutual interest which united him to us, has served notice that he asks no aid, expects no sympathy, seeks no quarter. *At his acted word we take him.*

The time has passed for circumlocution in handling this subject: If trade-unionism has a logical ground for existence, if organized resistance is preferable to slavish submission, if the social ties which unite us in mutual alliance are of higher validity than the selfish cravings of an unsocial nature, the relation between the trade-union and its sycophantic enemy, the "scab," is that existing between the patriot and the paid informer. No sentimentalism will attenuate, no olive branch will be extended; no tears will be shed over whatever misfortune befalls him, nor aught but utter loathing be felt for him. He stands forth by his own act recreant to duty. He is bankrupt in honor, infidel to faith, destitute of social sympathy, and a self-elected target. We here but express clearly what workingmen feel in every industrial crisis, and we deliberately express it that at *all* times such men be regarded as possible "informers" and traitors.

But let us hear his defense. We are told that trade-unionism is an encroachment upon individual right, that the toiler, whether union or non-union, has the privilege to sell his labor as best suits himself. To this we reply: (1) The toiler does not enter the market under equal conditions. (2) Monopoly over land, the source of wealth, and over exchange, its medium of distribution, gives to the capitalist an economic advantage in the struggle. (3) The legalization of privilege forces upon the unprivileged the necessity of combination in order to sustain themselves. (4) The logic of events has settled the line of action; it lies neither in the prayer-meeting nor in the polling-booth, but in mutual accord of action and determined self-help.

Industrial combination, under such circumstances, is as necessary for the exploited toiler, as military organization for an invaded people. We *are* in a state of industrial war. Every appeal to legislation to do aught but *undo* is as futile as sending a flag of truce to the enemy for munitions of war. The growth of solidarity evidenced in wider federation, in leading the broader views of the issue, and deeper sense of interrelations, can but intensify this feeling toward the "scab."

Unions have already demonstrated their power to rise above the subsistence level, where otherwise they would be. It is our duty, not only to ourselves, but to our families, to enlarge the scope of union among our fellow craftsmen. Our task is to be true to the need of the hour in order to be the better fitted for the unknown needs of the struggle tomorrow. The lines are being closer drawn, and the exigencies of the situation demand concert of action, both against the combined enemy and the traitor who would betray our cause by a shot from the rear. In such a struggle for a higher civilization—a struggle forced upon us—the industrial recreant is a social traitor.

Out of conflict all progress has come. The history of the labor movement, its increasing self-reliance, its growing indifference to "labor politicians," its development of sturdy independence and manhood, all alike indicate change in its methods among future possibilities. But with all this, and its accompanying wider sympathy and extension of mutual ties, the feeling of loathing toward the "scab" has intensified.

To sum up, to assert egoism against mutual interests is unsocial and hence a denial of the mutual basis upon which equitable relations alone can exist. Thus the "scab" is not merely unsocial, but by his acted word virtually places himself with the industrial invaders and becomes an enemy. Equal freedom cannot be strained to mean a denial of mutual interests. Social evolution is not a mere theory, but a record of facts, and no fact is more strongly brought out than that progress has resulted only in so far as mutual interests have been recognized. We do not *institute* them, they *compel* us.

Therefore, primarily as human beings, become so by social evolution, and by the social environment in which the present struggle is conditioned, and recognizing as the goal of industrial advance the mutuality of interests involved in the assertion of equal freedom, in strict accord with all sociological deductions, and with the utmost submission to the higher law permeating social growth, we reverently raise our hats to say prayerfully: "To hell with the 'scab'!"

### 325. Legal Regulation of Trade Unions<sup>45</sup>

BY HARRY M. CASSIDY

Of late years the fear has often been expressed, even by labor sympathizers, that trade unions might become antisocial organizations, tyrannies in their own right. It is clear that if this apprehen-

<sup>45</sup>1925.

sion is well grounded the state must intervene, as it has already intervened in a variety of ways, to protect the interests of the community at large. But trade unions are for a number of reasons difficult to regulate, and it is questionable whether the state can bring them under really effective control.

State control of trade unions implies the delimitation by law of a field of action within which the unions may operate. There are many different degrees of control, of course, from the prohibition of violence and sabotage at one end of the scale, to the prohibition of all combinations among workmen at the other. In the final analysis practically every sort of control is a limitation of the right to strike. For the strike, in a broad sense, means not only the collective quitting of work on the part of a number of employees, but also all the activities undertaken by the group which make such action possible and effective. For it is by means of the strike or the threat of the strike that unions gain their demands and enforce their will upon employers and the community at large. Without the power to strike, unions would have little potentiality of harm. Hence it is clear that state control, to achieve its purpose, must limit the right to strike, or must make the strikes less effective.

In terms of one political theory, the state, which is all dominant, has the power at any time to limit the actions of trade unions or other social organizations as it sees fit. In terms of another, this absolute right is neither theoretical or actual. Rather is it quite possible and probable that trade unions, composed of people whose union loyalty is stronger than their state loyalty, may defy governmental regulation successfully. But for our purpose these generalizations of political theory are of little value. It is impossible to lay down any general rule on the matter. In the United States at least, all that is feasible is to outline various factors that must be taken into consideration in forming an opinion about any particular situation.

In the first place, there are a host of factors that have to do with the strength of the union or unions that are to be regulated. If each organization embraces within its membership all or most of the workers in its industry; if there is little or no reserve labor supply; if the members have been getting good wages and are reasonably prosperous as individuals; if each union is strong financially; if its leadership is good; if its discipline has been strict; if there is a well-established tradition of unionism among members, union loyalty is great, and they are prepared to make large sacrifices for the union cause; if union members hold a radical economic philosophy and are militantly inclined; if the employers are weakly organized or poorly

led; if industry is capable of paying higher wages and giving better conditions of work; if employers are driven by hopes of high profits to be conciliatory rather than uncompromising: then the unions will enjoy considerable strength in the economic field. If not, the reverse is true.

Next come a series of questions about the strength of the state. Is governmental regulation of economic activity popular or unpopular? Are the sympathies of legislators and members of the judiciary for or against the aims of labor? Is law enforcement general, and is there a great respect for law and order? Is patriotism a great force? Is there a strong belief in the state as an agency for the preservation of civil liberties? Are determined and competent men in public office? Is the state unhampered by external difficulties? Is there a willingness on the part of the government to use police and military coercion to enforce its orders against unions? Upon the answers to these and similar questions will depend the answer to the main question of whether or not the state is in a strong position against particular trade unions.

Finally, there must be considered the attitude of the public. This will depend, too, upon a number of factors. Have the unions been carrying on strikes in essential public services, and have consumers been greatly inconvenienced thereby? Have union rates of pay, working rules, and so forth forced prices up so that consumers feel themselves imposed upon? Are wages and working conditions good, or are they such as to command general condemnation? Is the public mind imbued with liberal or conservative ideas about the redistribution of income, the abolition of industrial waste, industrial democracy, and so forth? Is the press controlled largely by employing interests, or has labor an adequate opportunity of getting its views before the public? Are members of the public willing to make material sacrifices for the success of the union cause? Have there been incidents of police brutality toward strikers, imprisonment of union leaders on apparently trivial cause, or use of the military for the suppression of strikes which may have turned the sympathies of the public toward the unions? Is there a feeling in the public mind that union members have been guilty of undue loafing on the job, of restricting output, and so enhancing prices? The attitude of the public will be defined largely in terms of these and like questions. And this attitude is a most important factor in the possibilities of state regulation of trade unions. For the trend of public opinion, if it is powerfully expressed, may very well be the deciding factor in making control possible, or in rendering it out of the question.



Only by an examination of a concrete situation in terms such as those outlined above does it seem possible to answer the question of how far state control can go. In the United States it is highly probable that the state could enforce the prohibition of strikes in a number of industries, such as transportation and other essential services whose continuity of operation is a public necessity. Similar drastic regulation might be possible in industries which are weakly or only partly unionized. In many industries, however, the feasibility of strike prohibition by the state would seem remote. One cannot well imagine the various unions of the garment industry, for example, giving up their right to strike without severe opposition, and without large public support for their stand. What has been said applies, of course, to the industrial situation of 1925. In the face of abnormal circumstances, such as those created by the war, state abrogation of the right to strike could go much farther, as the experience of labor regulation in the United States during 1917 and 1918 bears witness.

But all regulation of trade unions does not involve the complete abolition of the right to strike. Trade unions cling tenaciously to this right as a final resort, but they will not fight strongly for other privileges which make strikes possible and effective. Few trade unionists challenge state prevention of violence and sabotage during industrial-disputes.

At the other end of the scale there are many union activities which could be regulated without great difficulty. Unions might be ordered by law to make public information regarding membership, dues, funds on hand, and the like; they might be compelled to take in all qualified applicants for membership; they might be required to maintain only the most decorous sorts of picket lines; they might be made liable, as corporate bodies, for damage inflicted upon persons or property as a consequence of their activities; they might be forbidden the use of the boycott and the sympathetic strike; they might be compelled to observe collective agreements, on pain of damage suits; they might be required to submit disputes to boards of conciliation or investigation before undertaking a strike. In the United States the activities of unions have been circumscribed by some of these and by other methods. The injunction has furnished a powerful and effective weapon for the control of unions. If governmental authority willed it, there seems no good reason why control through the injunction could not be extended considerably.

In general, the state would find it easier to enforce the milder methods of control than those which come closer to complete strike

prohibition. But here again it is impossible to generalize. In the case of weak unions all of the devices suggested could no doubt be applied, while in the case of strong militant organizations of workers even some of the mildest might be used only with difficulty.

In conclusion, it may be repeated that it is impossible to lay down any hard-and-fast rule on this matter. It is clear that the state is not powerful enough, in every instance, to do as it pleases in the regulation of trade unions; and that there are few if any unions in the United States that are strong enough to defy the state absolutely. The truth seems to lie somewhere between these extremes. But where it lies is a matter for determination only by examining a particular situation and by taking into account the degree of control it is proposed to exercise and the strength of the unions in question as compared with that of the state against them.

## I. REVOLUTIONARY UNIONISM

### 326. Sabotage

#### a) *A Definition of Sabotage*<sup>46</sup>

BY ARTURO M. GIOVANNITTI

1. *Any conscious and wilful act on the part of one or more workers intended to slacken and reduce the output of production in the industrial field, or to restrict trade and reduce the profits in the commercial field, in order to secure from their employers better conditions or to enforce those promised or maintain those already prevailing, when no other way of redress is open.*

2. *Any skilful operation on the machinery of production intended not to destroy it or permanently render it defective, but only temporarily to disable it and put it out of running condition in order to make impossible the work of scabs and thus to secure the complete and real stoppage of work during a strike.\**

Whether you agree or not, sabotage is this and nothing but this. It is not destructive. It has nothing to do with violence, neither to life nor to property. It is nothing more or less than the chloroforming of the organism of production, the "knock-out drops" to put to sleep and out of harm's way the ogres of steel and fire that watch and multiply the treasures of King Capital.

<sup>46</sup>Adapted from the Introduction to Pouget's *Sabotage*, pp. 13-14. Copyright by Charles H. Kerr & Co., 1913. Written in the Essex County Jail, Lawrence, Massachusetts.

b) *Go Cannie*<sup>47</sup>

BY ARTURO M. GIOVANNITTI

It must be said with special emphasis that sabotage is not and must not be made a systematic hampering of production, that it is not meant as a perpetual clogging of the workings of industry, but that it is a simple expedient of war, to be used only in time of actual warfare with sobriety and moderation, and to be laid by when the truce intervenes.

The form of sabotage which was formerly known as *Go Cannie* consists purely and simply in "going slow" and "taking it easy" when the bosses do the same in regard to wages.

Let us suppose that one hundred men have an agreement with the boss that they should work eight hours a day and get \$4.00 in return for a certain amount of work. The American Federation of Labor is very particular—and wisely so—that the amount of work to be done during a day be clearly stipulated and agreed upon by the two contracting parties—the workers and their employers, this for the purpose of preventing any "speeding up."

To exemplify, let us suppose that these one hundred workers are bricklayers, get fifty cents an hour, work eight hours a day and, as agreed, lay fourteen hundred bricks a day. Now, one good day the boss comes up and tells them he can't pay them \$4.00 a day, but they must be satisfied with \$3.50. It is a slack season, there are plenty of idle men and, moreover, the job is in the country where the workers cannot very well quit and return home. A strike, for some reason or another, is out of the question. Such things do happen. What are they to do? Yield to the boss sheepishly and supinely? But here comes the syndicalist who tells them, "Boys, the boss reduced fifty cents on your pay—why not do the same and reduce two hundred bricks on your day's work? And if the boss notices it and remonstrates, well, lay the usual number of bricks, but see that the mortar does not stick so well, so that the top part of the wall will have to be made over again in the morning; or else after laying the real number of bricks you are actually paid for, build up the rest out of the plumb line or use broken bricks or recur to any of the many tricks of the trade. The important thing is not what you do, but simply that it be of no danger or detriment to the third parties and that the boss gets exactly his money's worth and not one whit more."

The same may be said of the other trades. Sweatshop girls when their wages are reduced, instead of sewing one hundred pairs of

<sup>47</sup>Adapted from the Introduction to Pouget's *Sabotage*, pp. 22-25. Copyright by Charles H. Kerr & Co., 1913.

pants, can sew, say, seventy; or, if they must return the same number, sew the other thirty imperfectly—with crooked seams—or use bad thread or doctor the thread with cheap chemicals so that the seams rip a few hours after the sewing, or be not so careful about the oil on the machines, and so on.

c) *Put Salt in the Sugar*<sup>48</sup>

If you are an engineer you can, with two cents worth of powdered stone or a pinch of sand, stall your machine, and cause a loss of time or make expensive repairs necessary. If you are a joiner or woodworker, what is simpler than to ruin furniture without your boss noticing it, and thereby drive his customers away? A garment worker can easily spoil a suit or a bolt of cloth; if you are working in a department store a few spots on a fabric cause it to be sold for next to nothing; a grocery clerk, by packing up goods carelessly, brings about a smashup; in the woolen or haberdashery trade a few drops of acid on the goods you are wrapping will make a customer furious; . . . an agricultural laborer may sow bad seed in wheat fields, etc.

d) *The Effectiveness of Sabotage*<sup>49</sup>

BY ARTURO M. GIOVANNITTI

Now that the bosses have succeeded in dealing an almost mortal blow to the boycott, now that picket duty is practically outlawed, free speech throttled, free assemblage prohibited, and injunctions against labor are becoming epidemic; sabotage, this dark, invincible, terrible Damocles' sword that hangs over the head of the master class, will replace all the confiscated weapons and ammunition of the army of the toilers. It will win, for it is the most redoubtable of all, except the general strike. In vain may the bosses get an injunction against the strikers' funds—sabotage will get a more powerful one against their machinery. In vain may they invoke old laws and make new ones against it—they will never discover it, never track it to its lair, never run it to the ground, for no laws will ever make a crime of the "clumsiness and lack of skill" of a "scab" who bungles his work or "puts on the bum" a machine he "does not know how to run."

There can be no injunction against it. No policeman's club. No

<sup>48</sup>Quoted from the *Montpelier Labor Exchange* for 1900, in Tridon, *The New Unionism* (1913), pp. 43-46.

<sup>49</sup>Adapted from the Introduction to Pouget's *Sabotage*, pp. 35-36. Copyright by Charles H. Kerr & Co., 1913.

rifle diet. No prison bars. It cannot be starved into submission. It cannot be discharged. It cannot be black-listed. It is present everywhere and everywhere invisible, like the airship that soars high above the clouds in the dead of night, beyond the reach of the cannon and the searchlight, and drops the deadliest bombs into the enemy's own encampment.

Sabotage is the most formidable weapon of economic warfare, which will eventually open to the workers the great iron gate of capitalist exploitation and lead them out of the house of bondage into the free land of the future.

*e) The Universality of Sabotage*<sup>50</sup>

Actions which might be classed as sabotage are used by the different exploiting and professional classes.

The truck farmer packs his largest fruits and vegetables upon the top layer. The merchant sells inferior articles as "something just as good." The doctor gives "bread pills" or other harmless concoctions in cases where the symptoms are puzzling. The builder uses poorer materials than demanded in the specifications. The manufacturer adulterates foodstuffs and clothing. All these are for the purpose of gaining more profits.

Carloads of potatoes were destroyed in Illinois recently; cotton was burned in the southern states; coffee was destroyed by the Brazilian planters; barge loads of onions were dumped overboard in California; apples were left to rot on the trees of whole orchards in Washington; and hundreds of tons of foodstuffs are held in cold storage until rendered unfit for consumption. All to raise prices.

Some forms of capitalist sabotage are legalized, others are not. But whether or not the various practices are sanctioned by law, it is evident that they are more harmful to society as a whole than is the sabotage of the workers.

Capitalists cause imperfect dams to be constructed, and devastating floods sweep whole sections of the country. They have faulty bridges erected, and wrecks cause great loss of life. They sell steamer tickets, promising absolute security, and sabotage the life-saving equipment to the point where hundreds are murdered, as witness the "Titanic."

The "General Slocum" disaster is an example of capitalist sabotage on the life-preservers. The Iroquois Theater fire is an example of

<sup>50</sup>Quoted from an editorial in the *Industrial Worker*, of Spokane, Washington, in Tridon, *The New Unionism* (1913), pp. 53-55.

sabotage by exploiters who assured the public that the fire-curtain was made of asbestos. The cases could be multiplied indefinitely.

Capitalist sabotage aims to benefit a small group of non-producers. Working-class sabotage seeks to help the wage-working class at the expense of parasites.

The frank position of the class-conscious worker is that capitalist sabotage is wrong because it harms the workers; working-class sabotage is right because it aids the workers.

Sabotage is a direct application of the idea that property has no rights that its creators are bound to respect. Especially is this true when the creators of the wealth of the world are in hunger and want amid the abundance they have produced, while the idle few have all the good things of life.

The open advocacy of sabotage and its widespread use is a true reflection of economic conditions. The current ethical code, with all existing laws and institutions, is based upon private property in production. Why expect those who have no stake in society, as it is now constituted, to continue to contribute to its support?

### 327. The Standpoint of Syndicalism<sup>51</sup>

BY LOUIS LEVINE

The fact which is untiringly emphasized in the Syndicalist analysis is the objective antagonistic position of those engaged in modern industry. The owners of the means of production directly or indirectly running their business for their private ends are interested in ever-increasing profits and in higher returns. The workingmen, on the other hand, who passively carry on productive operations are anxious to obtain the highest possible price for their labor-power which is their only source of livelihood. Between these two economic categories friction is inevitable, because profits ever feed on wages, while wages incessantly encroach upon profits.

From this twofold antagonism, rooted in the structure of modern economic society, struggle must ever spring anew, and this is the reason why all schemes and plans to avoid industrial conflicts fail so lamentably. Even the conservative trades unions, based on the idea that the interests of labor and capital are identical, are forced by circumstances to act contrary to their own profession of faith. Organizations like the Civic Federation are doomed to impotency. Boards of conciliation and arbitration work most unsatisfactorily and can show but few and insignificant results.

<sup>51</sup>Adapted from an article in the *Annals of the American Academy of Political and Social Science*, XLIV, 114-18. Copyright, 1912.

All efforts, therefore, to establish industrial peace under existing conditions result at best in the most miserable kind of social patchwork which but reveals in more striking nudity the irreconcilable contradictions inherent in modern economic organization.

There is but one logical conclusion\* from the point of view of Syndicalism. If industrial peace is made impossible by modern economic institutions, the latter must be done away with and industrial peace must be secured by a fundamental change in social organization. At the root of the struggle between capital and labor is the private ownership of the means of production which results in the autocratic or oligarchic direction of industry and in inequality of distribution. The way to secure industrial peace is to remove the fundamental cause of industrial war, that is, to make the means of production common property, to put the management of industry on a truly democratic basis and to equalize distribution.

The syndicalist distrusts the state and believes that political forms and institutions have outlived their usefulness and can not be adapted to new social relations. The syndicalist program for the future, in so far as it is definite and clear, contains the outlines of an industrial society—the basis of which is the industrial union, and the subdivisions of which are federations of unions, and federations of federations. The direction of industry, in this ideal system, is decentralized in such a manner that each industrial part of society has the control only of those economic functions for the intelligent performance of which it is especially fitted by experience, training, and industrial position.

The creative force of the industrial struggle, according to the syndicalist, manifests itself in a series of economic and moral phenomena which, taken together, must have far-reaching results. In the struggle for higher wages and better conditions of work the workingmen are led to see the important part they play in the mechanism of production and to resent more bitterly the opposition to their demands on the part of employers. With the intensification of the struggle, the feeling of resentment develops into a desire for emancipation from the conditions which make oppression possible; in other words, it grows into complete class-consciousness which consists not merely in the recognition of the struggle of classes but also in the determination to abolish the class-character of society. At the same time the struggle necessarily leads the workingmen to effect a higher degree of solidarity among themselves, to develop their moral qualities, and to fortify and consolidate their organizations.

It is evident that unless the syndicalist could theoretically con-

nect the struggle of the present with his ideal of the future, the latter would remain a beautiful but idle dream even in theory. He is bound, therefore, to find concrete social forces working for the realization of his ideal. His position forces him to prove that his ideal is the expression of the interests of a definite class, that it is gradually being accepted by that class under the pressure of circumstances, and that the social destinies of the "revolutionary" class are more and more identified with the syndicalist ideal.

He cheerfully accepts the conclusion that if industrial strife is creating social harmony his task is to intensify the struggle, to widen its scope, and to perfect its methods—in order that the creative force of the struggle may manifest itself as thoroughly and on as large a scale as possible. He, therefore, logically assumes a hostile attitude towards all efforts tending to mitigate the industrial struggle, such as conciliation and arbitration, and definitely enters the economic arena for the purpose of stirring up strife and of accentuating the struggle as much as is in his power.

### 328. Where Radicalism Thrives<sup>52</sup>

1. There are numbers of American workers who are not definitely attached either to any particular locality or to any line of industry. These migratory workers are continually moving from one part of the country to another as opportunity for employment is presented.

The great movements of these workers is seasonal in character, as, for example, the movement of harvest hands during the summer and autumn, the movement to the ice camps in the winter, the movement to the construction camps in the spring and summer. In addition there are large irregular movements of laborers which are produced by the depression in different trades and localities, and movements due to false rumors about opportunities and to the men's acquired habits of migration.

2. The number of these migratory workers seems to be increasing, though there are no available figures to show this conclusively.

3. A considerable proportion of these migratory workers are led to adopt this kind of life by reason of personal characteristics or weaknesses, and these weaknesses are accentuated rather than diminished by the conditions under which they live and work. Nevertheless, even if the migratory workers were all men of the highest character and reliability, there would still be a demand from our industries for the movement of the population in almost as great numbers

<sup>52</sup>Adapted from the *Final Report of the Committee on Industrial Relations*, pp. 101-3. This is a summary of an investigation conducted for the commission by P. A. Speck, 1915.



as at present, in order to supply seasonal demands and to take care of the fluctuations in business.

4. An increasingly large number of laborers go downward instead of upward. Young men with ambition and hope start their lives as workers, but, meeting failure after failure in establishing themselves in some trade, gradually sink into the ranks of migratory and casual workers. Continuing their existence in these ranks, they lose self-respect. Afterward they become "down-and-outs"—tramps, bums, vagabonds, gamblers, pickpockets, yeggmen, and other petty criminals—in short, public parasites.

5. The movement of these migratory workers, at the present time, is practically unorganized and unregulated. Workmen in large numbers go large distances in the hope of finding employment on the basis of a mere rumor and frequently find that there is no work. At the same time the demand for labor in a given locality or industry remains unfilled, because the workers have failed to hear of the opportunity. In fact a large part of the movement of migratory workers at present is determined, not by the demands of industry for labor, but by the necessity to search for work. To illustrate: A man finds himself out of work in a given locality because of the termination of the busy season, because of business depression, or because of his personal discharge; he is unable to secure employment in the locality, and he has no information regarding opportunity for work elsewhere. If he remains in the locality he is almost certain to be arrested as a vagrant. His only recourse is to start moving, and the direction of the movement is usually determined by chance.

6. The attempts to regulate the movements of migratory workers by local organizations have, without exception, proved failures. This must necessarily be true no matter how well planned or well managed such local organizations may be.

7. The problem cannot be handled except on a national scale and by methods and machinery which are proportioned to the enormous size and complexity of the problem.

The basic industries of the country, including agriculture and railroad construction work, are absolutely dependent upon these migratory workers.

8. The conditions under which migratory workers live, both in the cities and at their places of employment, are such as to inevitably weaken their character and physique, to make them carriers of disease, and to create in them a habit of unsteadiness and migration.

The provisions for housing and feeding workers in the labor camps are subject to severe criticism, while the lodging houses in the large cities are even worse, especially from the viewpoint of morals.

One season spent in a city lodging-house is generally sufficient to weaken the physique and destroy the moral fiber of even the strongest man. Numerous instances of the spread of dangerous diseases by migratory workers also have been brought to the notice of the commission.

9. The available information indicates clearly that even the most perfect distribution of workers, in accordance with the opportunities afforded at present by American industries, will still leave enormous numbers unemployed during certain seasons of the year and during periods of industrial depression.

10. The congregation of large numbers of migratory workers in large cities during the winter should be avoided, if possible, not only because they are an unjust burden upon the cities but because of the degenerating effects of city life during long periods of idleness.

11. The movement of migratory and seasonal workers is caused chiefly by the seasonal demand of industries and by the men's search for work, and, to a large degree, by their aimless desire to move about. The conditions of their transportation have become grave. Millions of men annually have to, and are allowed to, resort to such a method of movement as stealing rides on the railways. This method of transportation results in the demoralization and casualization of workers, in their congestion in industrial and railway centers, in waste of their time and energy, in frequent bodily injuries and numerous fatal accidents and homicides annually, while, at the same time, it serves poorly the industrial demand for help.

12. When the workers return to the city, from labor camps, for instance, either to rest or to spend the time between seasons, they not only meet the unhealthy and demoralizing influence of cheap lodging-houses, saloons, houses of prostitution, and other similar establishments in the slums, but they fall easy prey to gamblers, small private bankers, and all sorts of parasites. As a result what earnings they have left after deduction of their living expenses at work places rapidly disappear, no matter how large these earnings may be.

## XII

### CONTROL AND LEGAL INSTITUTIONS

From time out of mind the value and permanence of "fundamental" institutions have been questioned. The escape in America from a discussion of problems so basic has been largely due to the newness of our society. The open frontier, the wide distribution of industrial opportunity, the lack of formal class lines, and a spirit of self-reliance have centered our attention upon the more immediate problems of applying a machine-technique to a new continent and of collecting the golden returns. So closely have we been absorbed in this that we have regarded our institutions as a part of the immutable universe itself, as unalterable as the paths of the stars.

But with our consciousness of maturity we are beginning to realize that in the immediate future we must newly evaluate our institutions. Three lines of development are responsible for this change in attitude. First, we are victims of intellectual curiosity. The emphasis placed upon the general ideas of "evolution" and "organism" in our intellectual system has led investigators to explore the institutional realm, and they have brought back word to us that our institutions are but social conventions, and that, though they change slowly, they nevertheless change. Accordingly they are losing the attribute of absoluteness with which we have been accustomed to endow them. Secondly, there is a growing feeling that wealth is inequitably distributed. This attitude was apparent in our discussion of the tariff, the railroads, the trusts, the immigration problem. It manifests itself clearly in discussions of the problems of labor and in the literature of socialism. Even so late as a decade ago the conflict between those who proposed radical changes in our present social arrangements and the upholders of the present order turned upon the issue of the source of value. Today questions of market-process are no longer strategic points of conflict between the opposing systems. The clash now is over institutions. Accordingly we find questions of the social and industrial reform engaging the attention, not only of the economist, but of the student of jurisprudence, the political scientist, the sociologist, and the philosopher as well. Thirdly, the peculiar nature of the industrial system is forcing such questions to the front. Unlike other systems, Modern Industrialism makes use of a vast co-operative productive system. In this there are employed vast aggregates of accumulated wealth. A consciousness of the importance of this large volume of "socialized capital" is leading to the formation of a "gospel of wealth" not unlike the mediaeval "doctrine of stewardship." The disposition to justify or condemn ownership or use of productive goods by "social results" is becoming stronger. Together these three lines of development are increasing our interest in problems of an institutional nature.

Four closely related problems are treated below as typical of the whole group. The first, and in a sense the one which comprehends all the others, is the legal system. It has been pronounced alike "a subtle device of capitalism for enslaving the laborer" and "the supreme palladium of our liberties." Its defenders insist that "law is the conservative factor in social development" and declare its stability a necessary condition to industrial and social advance. Its opponents insist that it is still bound by the natural-rights philosophy of the eighteenth century, that it is living in a world of fictions, and that it knows nothing of the reality of Modern Industrialism. A second institution, which is little else than an aspect of this larger first, is the system of jurisprudence as interpreted by the courts. It is easy to discern a fundamental antithesis between the theory of social or group solidarity underlying much recent legislation and the individualistic philosophy which finds expression in court decisions. It is easy to criticise the legislation as overlooking "natural rights" which the

"courts were established to maintain." It is equally easy to condemn the courts for their inability to appreciate the theory of group welfare underlying such legislative enactments. It is a far more difficult problem to suggest a practical way in which the antithesis can be solved.

A third institution under attack is our system of private property. Most of those who condemn the institution are moved by the inequalities in wealth which they charge to it. Their attitude is alike shortsighted and individualistic. The institution is commonly defended upon the ground that property-owners are entitled to "what they produce," the assumption being that they "produce" their property. It need not be said that this defense is as weak as the attack. There is, however, a growing disposition to judge the institution by its less immediate "social consequences." Thus, it is attacked because of its creation and perpetuation of artificial inequalities in income, because of its influence in stratifying society on pecuniary lines, and because of the dominant social position which it gives to the owners of large aggregates of material wealth. Its defenders, in like manner, stress the incentive which it furnishes to individual initiative, the function which it performs in social organization by placing productive property under efficient management, and its contribution to material development in furthering the accumulation of capital. Perchance a system may be devised for combining the advantages of economic democracy with those of an advancing material culture. If so, by all means let us adopt it. But if the antithesis is irreconcilable, we must choose between two things, both of which offer advantages and disadvantages. Perchance it may be best to sacrifice material advancement; but it is to be feared that the present generation cannot easily be convinced of that. Perhaps we may be fortunate enough to retain the institution, but can succeed in modifying it in such a way as to establish a necessary connection between the privileges and the responsibilities of ownership. At best the problem contains many contradictory values, and turns upon the larger question of the type of society that is desirable.

A fourth and closely related institution is that of individual liberty, embracing as it does the legal convention of freedom of contract. A necessary complement of private property in a flexible industrial system, it is the very epitome of the older institutional complex. Its modification is threatened by the rise of the newer group spirit, through such legislative initiatives as regulation of monopoly, prescription of hours of labor, legal restraints upon hiring and discharge, etc. How sweeping its modification is to be only the future can tell.

Our attention to our institutional framework of society has just begun. The range of inquiry is as broad as human life itself; the other problems discussed in this volume only begin to show its comprehensiveness. By conscious change many of our institutions are to be profoundly modified. If the newer life finds the institutional molds too rigid, the change may be rapid and revolutionary. But most important of all are the changes in these institutions which are gradually being effected by a process of growth which we but dimly see and the changes which these institutions in turn are inducing in the complex of our developing scheme of life and values.

## A. THE LEGAL SYSTEM

### 329. Of the Making of Law<sup>1</sup>

BY ROSCOE POUND

A generation ago it would have been hard to find anyone to question that upon the whole the American law was quite what it should

<sup>1</sup>Adapted from "Social Problems and the Courts," *American Journal of Sociology*, XVIII, 331-41. Copyright by the University of Chicago, 1912.

be. But first the economists and sociologists and students of government, and then the bar itself, have been thinking upon this matter freely and vigorously until criticism has become stable. The need for agitation has passed. Now for a season we need careful diagnosis and thoroughgoing study of the lines along which change is to proceed.

Legal history shows that from time to time legal systems have to be remade, and that this new birth of a body of law takes place through the infusion into the legal system of something from without. A purely professional development of law, which is necessary in the long run, has certain disadvantages, and the undue rigidity to which it gives rise must be set off from time to time by receiving into the legal system ideas developed outside of legal thought. Such a process has taken place in the history of our own law. In the sixteenth and seventeenth centuries the common law, through purely professional development in the King's Courts, had become so systematic and logical and rigid that it took no account of the moral aspects of causes to which it was to be applied. With equal impartiality its rules fell upon the just and the unjust. The rise of the Court of Chancery and the development of equity brought about an infusion of morals into the legal system—an infusion of the ethical notions of chancellors who were clergymen, not lawyers—and made over the whole law. Again, in the eighteenth century, the law had become so fixed and systematized by professional development as to be quite out of accord with a commercial age. As the sixteenth-century judge refused to hear of a purely moral question, asking simply what was the common law, so the eighteenth-century judge at first refused to hear of mercantile custom and commercial usage, and insisted upon the strict rules of the traditional law. But before the century was out, by the absorption of the law merchant, a great body of non-professional ideas, worked out by the experience of merchants, had been infused into the legal system, and had created or made over whole departments of the law.

Today a like process is going on. The sixteenth-century judge who rendered judgment upon a bond already paid, because no formal release had been executed, and refused to take account of the purely moral aspects of the creditor's conduct; the great judge in the eighteenth century who refused to allow the indorsee of a promissory note to sue upon it, because by the common law things in action were not transferable, and would not listen to the settled custom of merchants to transfer such notes, nor to the statement of the London tradesmen as to the unhappy effect of such a ruling upon business, have their entire counterpart in the judges of one of the great courts

of the United States in the twentieth century to whom the economic and sociological aspects of a question appear palpably irrelevant.

The sixteenth- and seventeenth-century law was brought to take account of ethics. The eighteenth-century law came to receive the custom of merchants as part of the law of the land. May we not be confident that in the same way the law of the twentieth century will absorb the new economies and the social science of today and be made over thereby?

It is an infusion of social ideas into the traditional element of our law that we have to bring about; and such an infusion is going on. The right course is not to tinker with our courts and with our judicial organization in the hope of bringing about particular results in particular kinds of cases, at a sacrifice of all that we have learned or ought to have learned from legal and judicial history. It is rather to provide a new set of premises, a new order of ideas in such form that the courts may use them and develop them into a modern system by judicial experience of actual cases. A body of law which will satisfy the social workers of today cannot be made of the ultra-individualist materials of eighteenth-century jurisprudence and nineteenth-century common law based thereon, no matter how judges are chosen or how often they are dismissed.

A master of legal history tells us that taught law is tough law. Certainly it is true that our legal thinking and legal teaching are to be blamed more than the courts for the want of sympathy with social legislation which has been so much in evidence in the immediate past. One might almost say that instead of recall of judges, recall of law teachers would be a useful institution. At any rate, what we must insist upon is recall of much of the juristic and judicial thinking of the last century.

For many reasons which cannot be taken up here, our conception of the end of the legal system came to be thoroughly individualistic. Legal justice meant securing of individual interests. It sought by means of law to prevent all interference with individual self-development and self-assertion, so far as this might be done consistently with a like self-development and self-assertion on the part of others. It conceived that the function of the state and of the law was to make it possible for the individual to act freely. Hence it called for a minimum of legal restraint, restricting the sphere of law to such checks as are necessary to secure "a harmonious coexistence of the individual and of the whole." This purely individualistic theory of justice culminated in the eighteenth century in the Declaration of the Rights of Man and the Bill of Rights so characteristic of that period. Spencer's formula of justice, "the liberty of each limited *only* by the like liberties of all," represents the ideal which American law has

had before it during its whole existence. In politics, in ethics, and in economics this conception has decayed, and has given way to a newer idea of justice. But it continues to rule in jurisprudence.

In contrast with such juristic thinking of the immediate past, which started from the premise that the object of the law was to secure individual interests and knew of social interests only as individual interests of the state or sovereign, the juristic thinking of the present must start from the proposition that individual interests are to be secured by law because and to the extent that they are social interests. There is a social interest in securing individual interests so far as securing them conduces to general security, security of institutions and the general rural and social life of individuals. Hence while individual interests are one thing and social interests another, the law, which is a social institution, really secures individual interests because of a social interest in so doing.

Study of fundamental problems of jurisprudence, not petty changes of the judicial establishment, is the road to socialization of the law. First of all, there must be a definition of social justice to replace the individualistic or so-called legal justice which we have; there must be a definition of social interests and a study of how far these are subserved by securing the several individual interests which the law has worked out so thoroughly in the past; there must be a study of the means of securing these social interests otherwise than by the methods which the past had worked out for purely individual interests. Second, there must be a study of the actual social effects of legal institutions and legal doctrines. Courts cannot do this, nor can law teachers or law writers, except within narrow limits. The futility of a self-sufficing, self-centered science of law has become apparent to jurists.

### 330. Law and Social Statics<sup>2</sup>

BY OLIVER WENDELL HOLMES

This case is decided upon an economic theory which a large part of the country does not entertain. If it were a question whether I agreed with the theory I should desire to study further and long before making up my mind. But I do not conceive that to be my duty, because I strongly believe that my agreement or disagreement has nothing to do with the right of the majority to embody their opinion in law. It is settled that state constitutions and laws may

<sup>2</sup>*Lochner v. New York*, 198 U.S. 74. This is the well-known "bake-shop case." A statute passed by the New York legislature, regulating the hours of labor in bake shops, was declared unconstitutional. The selection given is an excerpt from a dissenting opinion (1904).

regulate life in many ways that we as legislators might think injudicious, or if you like, as tyrannical as this, and which equally interfere with the liberty of contract. This liberty of the citizen to do as he likes so long as he does not interfere with the like liberty of others to do the same, which has been a shibboleth for many well-known writers, is interfered with by school laws, by the post-office, by every state and municipal institution which takes his money for purposes thought desirable, whether he likes it or not. The Fourteenth Amendment does not enact Herbert Spencer's *Social Statics*. A constitution is not intended to embody a particular economic theory, whether of paternalism and the organic relations of a citizen to the state, or of laissez faire. It is made for people of fundamentally differing views.

General propositions do not solve concrete problems. The decision will depend on a judgment or intuition more subtle than any articulate major premise. Every opinion tends to become law. I think that the word liberty in the Fourteenth Amendment is perverted when it is held to prevent the natural outcome of a dominant opinion, unless it can be said that a rational and fair minded man would necessarily admit that the proposed statute would infringe fundamental principles as they have been understood by the traditions and the laws of our people.

### 331. The Social Function of Law<sup>3</sup>

BY HOMER HOYT

The critics of the current legal system seem to be agreed as to the baneful effect of its static character. Law is said to be a survival of eighteenth-century philosophy which cannot be justly applied to twentieth-century society. The favorable hearing which this plea is receiving indicates that it is in keeping with the growing tendency of an age of industrial change to emphasize the dynamic and evolutionary elements of its institutions. The demand for relative standards of jurisprudence becomes more insistent, as people become more convinced of the unique and marvelous character of their own epoch. We are told that legal codes should be developed out of the experience of the society to which they are to be applied, and that any law whose basis is broader than the time and place in which it is now established, to the extent that it fails of this coincidence, is clearly unjust. In particular, our present society, which is so different from other societies both in degree of complexity and in kind of organization, necessarily requires rules of conduct which are adapted to its institutions. The scope of laws is not only to be narrowed to a brief

<sup>3</sup>1915.



time unit, but their application to different classes of individuals at the same moment is to be carefully restricted. As commonly expressed, justice consists in giving to every person a square deal, and this is generally interpreted to mean judgment of the individual by the rules of the game which were set for his particular social environment. Perfect justice could be secured in every case, according to these critics, by discarding past standards and by deciding each case upon its merits. This involves nothing less than the abandonment of objective rules of judgment, and the substitution in their place of the subjective test of the psychological laboratory. The indictment is thus chiefly directed against the social value of static standards of law.

The apologists for the existing legal institutions assert that stable standards of law are necessary to secure this very special consideration of the merits of each individual case, which constitutes the very essence of individual justice. They would remind their critics that legal principles originate in social intercourse, and are concerned with the conduct of individuals in relationships where some community of understanding is indispensable. The social conventions and institutions are the relatively static elements in society, and it is necessary for their function as media of social communication that they should be so. Their purpose is to furnish a convenient agency of mutual expression, which can be acquired with a minimum of effort on the part of the individual, and to establish an agreement among diverse and heterogeneous interests in regard to matters where unanimity is of great advantage to the individual. Law acquires its static character by becoming so familiar that it no longer requires conscious attention. Men form habits in regard to their legal institutions, for the same purpose that they form habits in regard to language—to economize the time and effort of carrying on relations with their fellows. Legal standards thus enter indissolubly into the thoughts, acts, and characters of men as a part of their fundamental assumptions, which they accept without question. Individual acts inevitably carry forward the theory of law which existed prior to their performance, and thus tend to perpetuate the same principles. The prohibition of retroactive laws is universally considered necessary to prevent confiscation of property, and forfeiture of vested rights, but it accomplishes its purpose by guaranteeing a certain degree of stability in our legal system. Justice to the individual, according to the conception entertained in the preceding paragraph, can be assured only by recognizing the social value of static laws in setting up guideposts to direct individuals to the legal road. The complexity of modern civilization confuses and bewilders one who has no

definite knowledge of its laws. As an immigrant in a strange land feels helpless and insecure because of ignorance of the unfamiliar social organization, so the native citizen is nonplused by shifting and unstable legal standards. The consequences of action may be that the individual is subjected to extraordinary civil and criminal liability, for society imputes legal responsibility to one definite act of the many which have co-operated to produce the final result. The criminal act itself is criminal in view of the social attitude which prevails at the time, and the justice of enforcing the social attitude is dependent upon announcement of it beforehand in terms sufficiently definite to put individuals upon their guard.

Uncertainty as to what is legal, when the consequences of guessing wrongly may result in heavy penalties, blights forward action in its very inception, at the moment when the individual is deciding to make the positive step required to overcome the safety and certainty of doing nothing. At this point the society whose duty it was to establish laws and administer justice finds itself deeply concerned, for upon the decision of the individuals depends its progress as a group. Activity of individuals is even more necessary to society than regulatory measures whose purpose is to secure the best type of activity. But when the rules of law depart from fixed standards to suit the exigencies of particular cases to such an extent that they cease to be trustworthy guides for future action, then law, instead of creating an attitude favorable to progress, deadens individual activity. In society as at present organized the social advantages of continued production and the opening of new lines of enterprise would be destroyed, were law made immediately responsive to social conditions, by the very agency which is designed to increase social efficiency. A fairly stable and certain standard of law must necessarily be established to tempt individual initiative, and this implies that individual standards of justice must give way to a common standard of justice, which all individuals having social dealings can understand and interpret. Otherwise the plea of unusual circumstances or peculiar temperament will readily lend itself to arbitrary and capricious rules of law, the very possibility of which will foster suspicion and distrust of judicial processes. It is only because men are fairly certain that the main bases of property and contract rights will not be suddenly and substantially altered to their disadvantage, that they strike out into new fields of enterprise. It is only because individuals are confident that the court will not construct special standards to apply to their acts, that they will proceed with decision upon tomorrow's work. If all things were subject to change, would anyone confine his attention to one task even for a moment? Entrepreneurs may be able

to calculate with some degree of accuracy the probable changes in the factors which will affect future markets for their products, but if the very standards by which they have made their calculations vary at the discretion of a future court, how accurately can they allow for these unprecedented psychological factors?

Definite rules of law are formulated by court decisions as well as by statutory enactment. In the case of court-made law the recognition of precedents is indispensable to the existence of the law, for a legal principle is not established until it comes to be acknowledged as binding upon the facts to which it applies. As fast as new laws are developed, the number of doubtful questions is diminished, and the road is cleared for fresh consideration of new situations which arise out of the dynamic progress of society. It is as necessary, therefore, that the courts be relieved of the enormous burden of reconsidering old issues, as it is for the individual to find definiteness in the law. As individuals accept the greater part of the questions arising out of their social relations as definitely settled, and proceed to expend money and effort upon the assumption that the definite rules will not be reversed, so the courts resolve new cases by comparing them with cases already decided. In thus basing their decisions on precedent, the courts are often unfairly accused of applying a blind rule of thumb to avoid the trouble of exerting ingenuity and using wisdom in devising methods of equitable relief. But it is manifestly far more unjust to reverse the settled principles upon the faith of which men have acquired power and governed their courses of action in the past than to enact into law the court's own unfettered opinion as to the justice of the case, which may or may not coincide with what is generally accepted. Considerations of practicability enforce this course upon the courts. The task of reconciling conflicting precedents itself gives the widest leeway for the exercise of ingenuity, and the frequency with which cases are decided by a divided opinion indicates the difficulty involved in finding a definite course. The application of legal principles is consequently far more than the readaptation of past rules to present situations. The growth of new social environments changes the force of old arguments and compels a modification of many rules. The precedent which was at first stated in a broad and abstract form is given definite meanings by concrete applications. Its logical relationship to other precedents is developed as occasion requires, and the extent of its scope is definitely determined by an interaction with other precedents. Into the old rules is infused the spirit of the new developments; the outworn and archaic elements are cast out and new elements are added. The whole system of jurisprudence is made to grow by mingling into the substance of the law the viewpoints of each successive age.

## B. PRIVATE PROPERTY

332. Progress and Property<sup>4</sup>

BY PAUL ELMER MORE

Not even a Rousseau could cover up the fact of the initial inequality of men by the decree of that great Ruler or Law which makes one vessel for dishonor and another for honor. This is the so-called injustice of nature. And it is equally a fact that property means the magnifying of that natural injustice into that which you may deplore as unnatural injustice, but which is a fatal necessity, nevertheless. This is the truth, hideous if you choose to make it so to yourself, true to those, whether the favorites of fortune or not, who are themselves true—ineluctable at least.

Unless we are willing to pronounce civilization a grand mistake, as, indeed, religious enthusiasts have ever been prone to do (and humanitarianism is more a perverted religion than a false economics), unless our material progress is all a grand mistake, we must admit, sadly or cheerfully, that any attempt by government to ignore that inequality may stop the wheels of progress or throw the world back into temporary barbarism, but will surely not be the cause of wider or greater happiness. It is not heartlessness, therefore, to reject the sentiment of the humanitarian, and to avow that the security of property is the first and all-essential duty of a civilized community.

And we may assert this truth more bluntly, or, if you please, more paradoxically. Although, probably, the rude government of barbarians, when the person was scantily covered or surrounded by property, may have dealt principally with wrongs to persons, yet the main care of advancing civilization has been for property. One reason, of course, is that the right of life is so obvious, and in the nature of things has been so long and universally recognized. But, after all, life is a very primitive thing. Nearly all that makes it more significant to us than to the beast is associated with property. To the civilized man the rights of property are more important than the right to life.

In our private dealings with men, we may ignore the laws of civilization with no harm resulting to society; but it is different when we undertake to lay down general rules of practice. We are essentially, not legislators, but judges. What then, you ask, are human laws? In sober sooth, it is not we who create laws; we are rather finders and interpreters of natural laws, and our decrees are merely the application of our knowledge, or our ignorance, to particular con-

<sup>4</sup>Adapted from an article entitled "Property and Law," *Unpopular Review*, III, 259-68. Copyright. 1915.

ditions. When our decrees are counter to natural law, they become at best dead letters, and at worst, agents of trouble and destruction. Law is but a rule for regulating the relations of society for practical purposes. We are bound to deal with man as he actually is. So, if our laws are to work for progress, they must recognize property as the basis of civilization, and must admit the consequent inequality of conditions among men. They will have relatively little regard for labor in itself or for the laborer in himself, but they will provide rigidly that labor shall receive the recompense it has bargained for, and that the laborer shall be secure in the possession of what he has received. We may try to teach him to produce more, or to bargain better, but in the face of all appeals of sentiment society must learn again today that it cannot legislate contrary to the decree of fate. Law is concerned primarily with the rights of property.

So directly is the maintenance of civilization and peace and all our welfare dependent upon this truth—that it is safer, in the utterance of law, to err on the side of natural equality than on the side of ideal justice. We can do something to control the power of cunning and rapacity, and to make the distribution of material advantages fall more in conformity with superiority of character and culture. We can go a little way, and very slowly, in the endeavor to equalize conditions by the regulation of property; but the elements of danger are always near at hand and insidious; and undoubtedly any legislation that deliberately releases labor from the obligations of contract, and permits it to make war on property with impunity, must be regarded as running counter to the first demands of society. It is an ugly fact that, under cover of the natural inequality of property, evil and greedy men will act in a way that can only be characterized as legal robbery. The state should prevent such action so far as it safely can. Yet even here, in view of the magnitude of the interests involved, it is better that legal robbery should exist along with the maintenance of law, than that legal robbery should be suppressed at the expense of law.

You may to a certain extent control property and make it subservient to the ideal nature of man; but the moment you deny its rights, or undertake to legislate in defiance of them, you may for a time unsettle the very foundations of society, you will certainly in the end render property your despot and so produce a materialized and debased civilization. Manifestly, the mind will be free to enlarge itself in immaterial interests only when the material basis is secure, and without a certain degree of such security a man must be anxious over material things and preponderantly concerned with them. And, manifestly, if this security is dependent upon the right of property, and these rights are denied or belittled in the name of

some impossible ideal, it follows that the demands of intellectual leisure will be regarded as abnormal and anti-social.

No doubt the ideal society would be that in which every man should be filled with noble aspirations. But I am not here concerned with utopian visions. My desire is to confirm in the dictates of their own reason those who believe that the private ownership of property is, with very limited reservations, essential to the material stability and progress of society. We who have this conviction need to remind ourselves that laws which would render capital insecure, and, by a heavy income tax or other discrimination in favor of labor, would deprive property of its power of easy self-perpetuation, though they speak loudly in the name of humanity, will in the end be subversive of those conditions under which alone any true value of human life can be realized.

This, I take it, is the reason that the church and the university have almost invariably stood as strongly reactionary against any innovation which threatened the entrenched rights of property. It is not at bottom the greed of possession that moves them, nor are we justified in casting into their teeth the reproach that they who profess to stand for spiritual things are in their corporate capacity the most tenacious upholders of worldly privilege. They are guided by an instinctive feeling that in this mixed and mortal state of our existence, the safety and usefulness of the institutions they control are finally bound up with the inviolability of property which has been devoted to unworldly ends. For if property is secure it may be a means to an end, whereas if it is insecure it will be the end itself.

### 333. My Apology<sup>5</sup>

BY P. PROPERTY

What have I to say why judgment should not be passed against me? why I should not be banished from human society? why, with creatures of darkness, I should not be cast into the outer void? I have little to say. But my long and effective services to society speak eloquently for themselves, and I may as usual content myself with few words. I need only enumerate in briefest form the record of my accomplishments, and I feel that my defense is complete. I mention my achievements not boastfully, being as modest as my first name Private signifies, but only as earnest of what society may expect from me in the future.

For society, and in furtherance of civilization, I, Private Property, assert that I have performed these services, to-wit:

First, I have rendered the fundamental conditions of social and

<sup>5</sup>1915.

industrial life safe and secure. Before I came into my own, the power to seize and hold summed up the ethics of ownership. Energies that might have gone into more productive employments were used in defending one's own or in appropriating one's neighbor's. But I established and secured social sanction and universal respect for the right of possession.

Second, the security thus afforded had caused the energies of men to be diverted from the acquisition to the production of wealth. It has led to the utilization of natural resources, and has provided opportunity for the use of long-continued and consistent industrial policies which have caused material goods to increase verily a hundred fold.

Third, such security has furnished an incentive to man as a worker to utilize his productive capacities to the full. It has caused him to sow, because it has promised that he, and not another, should reap. It has led him to sacrifice immediate gain in establishing new processes and in devising new instruments of production to the end that the earth might be crowned with abundance.

Fourth, I plead innocent of the charge of having favored a privileged "leisure class," upon whom I have showered plenty that has been wasted in riotous living. It is true that I have conferred wealth upon a few. But these few I have not particularly favored. I have chosen them for highly important and extremely dangerous social service. I have assigned to them the task of experimentation in consumption. Whatever bad they have found they have discarded. The good that they have discovered has in time been made the property of the masses. They are the vanguard of my army which is engaged in raising the standard of living. The goods supplied to them are not rewards; they consist only of the laboratory materials necessary to the work which they are doing. Witness their suffering, their costs, and you can appreciate the heroism which makes them willing to serve society in so dangerous and important an undertaking. The extent to which, through their pioneer service, the formerly rigid boundaries of consumption have been extended attests my wisdom.

Fifth, I have greatly increased the product of industry by the use of vast stores of capital. The economic inequality which I have perpetuated has been the cause of the existence of so fruitful a fund. For its bulk has come from the very large incomes whose source I am. The savings which become the capital that turns the wheels of our mills, runs our machines, and speeds our trains across the continent on their missions of service are possible only because

of me. And, but for the security which I offer, the investment of these savings would be impossible.

Sixth, I supply the people with abundance and contribute to the fullness of their lives. The security which I have brought about has almost eliminated risks. The result is decreased costs, which I generously offer to the public in decreased prices. The long-time productive operations, the improvements in technique, and the cumulative investment of capital, which I have brought about, confer the favors of plenty, variety, and cheapness upon all sorts and conditions of men. My aristocratic methods have been mere devices for securing democratic ends. I have forced my owners to use me productively. I have made them stewards of the commonweal.

Seventh, I have led society in its development to higher and higher planes. Out of my abundance they have been able to satisfy more and more of their material wants. The certainty with which I have endowed the satisfaction of the necessary material wants has enabled those who choose to give of their time, energy, and means to the immaterial things of life. Our culture, with its wide horizon and its varied content, is my handiwork. That civilization is not coarse and material and brutal is my doing.

Eighth, I have prevented a passing sentimentalism from sacrificing these more permanent values to the passing fancy of the moment. I have, at the cost of much misunderstanding and malignant criticism, prevented the wealth that was needed for a richer life for the generations of the future from being wasted in satisfying the immediate wants of a few surplus individuals who promised no contribution to culture. I have preferred to have such wealth used in enlarging capital, thus making for bounty of goods, and in social experimentation whose end was to lead men to richer and fuller life. I have seen clearly that a deficiency of human life could easily be supplied within a generation, but that a deficiency in capital can never be made up; that cumulatively it becomes greater as the years pass; and that it must deny life to many yet unborn and rob others of comforts which otherwise would have made their lives less vain and hollow.

Ninth, I have proved myself the custodian of peace and have laid the foundations of a world-wide Christian community. The system of vested interests with which I have surrounded labor and capital has done more for the cause of peace than all other agencies combined. For I have increased many fold the costs to all classes of engaging in war. The world-wide industrial system which I have wrought is more powerful than all armaments combined in protecting a state against the encroachments of another state and it



contributes more to nation's understanding of nation than the whole world-wide system of diplomacy. My success has not been complete, but that merely makes my continued presence and activity all the more necessary.

I would not detract one whit from the good intentions of my malefactors. I bear them no malice. My only plea is that I be judged according to my fruits. I am done.

### 334. The Constitutional Position of Property in America<sup>6</sup>

BY ARTHUR T. HADLEY

European observers who study either the specific industrial questions which have come before the American people for their solution, or the general relations between the industrial activity of the government and that of private individuals, are surprised at a certain weakness of public action in all these matters. Our legislatures are often ready to pass drastic measures of regulation; they are rarely willing to pursue a consistent and carefully developed policy for the attainment of an industrial end. The people often declaim against the extent of the powers of private capital; they are seldom willing to put that capital under the direct management of the government itself. The man who talks loudest of the abuses of private railroad management shrinks from the alternative of putting railroads into the direct control and ownership of the state.

The fact is, that private property in the United States, in spite of all the dangers of unintelligent legislation, is constitutionally in a stronger position, as against the government and the government authority, than is the case in any country of Europe. However much public feeling may at times move in the direction of socialistic measures, there is no nation which by its constitution is so far removed from socialism or from a socialistic order. This is partly because the governmental means provided for the control or limitation of private property are weaker in America than elsewhere, but chiefly because the rights of private property are more formally established in the Constitution itself.

This may seem a startling proposition; but I think a very brief glance at the known facts of history will be sufficient to support and sustain it. For property in the modern sense was a comparatively recent development in the public law of European communities. In the United States, on the contrary, property in the modern sense

<sup>6</sup>From an article with the foregoing caption in the *Independent*, April 16, 1908. Copyright.

represents the basis on which the whole social order was established and built up.

Down to about the thirteenth century the system of land tenure in every country of Europe was a feudal one. It was based upon military service. A man held a larger or smaller amount of land on account of his larger or smaller amount of fighting efficiency. There were many rival claimants for the land. The majority of those who wanted to cultivate the soil were unable to protect themselves against the dangers of war. In the absence of an efficient protector or overlord no amount of industry was effective and no large accumulation of capital was possible. The services of the military chief were indispensable as a basis for the toil of the laborer or the forethought of the capitalist. It was the military chief, therefore, who enjoyed not only the largest measure of respect, but the strongest position under the law. As the condition of public security grew better these things changed. From the fourteenth century to the nineteenth Europe has witnessed the gradual substitution of industrial tenures for military tenures, the gradual development of a system of property law intended to encourage the activities of the laborers and the capitalists, rather than to reward the services of the successful military chieftain. But down to the end of the eighteenth century this new sort of private property represented a superadded element rather than an integral basis of the constitution of society. And even the developments of the last hundred years in constitutional law and industrial activity have not been able to obliterate a certain sense of newness when we contrast the position of the aristocracy of wealth with that of the aristocracy of military rank.

In the American colonies, on the other hand, where the public law of the United States first took its rise, conditions were wholly different. People wanted no military chieftain to protect them, no overlord to rule them. Each man was familiar with the use of a gun—how familiar, the overwhelming losses of the British troops in the Revolutionary War, when brought face to face with untrained farmers, testify very clearly—and was ready to take his share in protecting the community against the attacks of the Indians or their French leaders. There was plenty of land for all—plenty of opportunity for the exercise of labor and the use of capital. That man did the most for society who worked hardest and saved most. Under such circumstances the laws were so framed and interpreted as to give the maximum stimulus to labor and the maximum rights to capital. There was no military aristocracy which stood in the way. Governors were at times sent over from England who tried their best to assert Crown rights for themselves and their subordinates.

But the net effect of the activity of these governors was probably to weaken rather than to strengthen the claims of feudal authority, because they made themselves so unpopular that they united the spirit of the colonists in their resistance to all such claims and pretensions.

At the time, therefore, when the United States separated from England, respect for industrial property right was a fundamental principle in the law and public opinion of the land. It was natural enough that this should be so at a period when every man either held property or hoped to do so. The strange thing is that this principle should have survived with so little change down to the present day. But there were certain circumstances connected with the adoption of the Constitution of the United States which provided for the perpetuation of this state of things—which made it difficult for public opinion in another and later age, when property-holding was the less widely distributed, to alter the legal conditions of the earlier period.

During the War of the Revolution, from 1775 to 1782, and in the years immediately thereafter, the American Union had been a league of independent states, and a very loose one. They had formed an organization for mutual protection in carrying on the war. But this organization, even while the war lasted, was very weak indeed. The imminence of a common danger, which threatened to involve all, and the personality of a few leaders, of whom George Washington was the most conspicuous, were the only things that enabled the different colonies to act together. When independence was conceded by England in 1782, and the restraints of common danger were removed, the hopeless weakness of the central government became obvious. From 1783 to 1789 the United States had no means of securing concert of action at home or respect and consideration abroad. Clear-headed men felt the absolute necessity of centralization. The Constitution of 1788 was the result of a set of contracts, agreements, and compromises between two pretty evenly balanced parties—a states rights party, which wished to limit the powers of the federal government, and a national party, which was anxious to set some practical control on the autonomy of the state government.

The delegates to the convention of 1787 were concerned with questions of constitutional law in the narrower sense. They were not thinking of the legal position of private property. But it so happened that in making mutual limitations upon the powers of the federal and the state government they unwittingly incorporated into the Constitution itself certain very extraordinary immunities to the property holders as a body.

It was in the first place provided that there should be no taking

of private property without due process of law. The states rights men feared that the federal government might, under the stress of military necessity, pursue an arbitrary policy of confiscation. The Federalists, or national party, feared that under the influence of sectional jealousy one or more of the states might pursue the same policy. This constitutional provision prevented the legislature or executive, either of the nation or of the individual states, from taking property without judicial inquiry as to the necessity, and without making full compensation even in case the result of such inquiry was favorable to the government. No man foresaw the subsequent effect of this provision in preventing a majority of voters, acting in the legislature or through the executive, from disturbing existing arrangements with regard to railroad building or factory operation until the railroad stockholders or factory owners had had the opportunity to have their case tried in the courts.

There was another equally important clause in the Constitution providing that no state should pass a law impairing the obligation of contracts. In this case also a provision which was at first intended to prevent sectional strife and to protect the people of one locality against arbitrary legislation in another became a means of strengthening vested rights as a whole against the possibility of legislative or executive interference. Nor was the direct effect of these two clauses in preventing specific acts on the part of the legislature the most important result of their existence. They were a powerful means of establishing the American courts in that position of supremacy which they enjoy under the Constitution. For whenever an act of the legislature or the executive violated, or even seemed to violate, one of these clauses, it came before the courts for review. If the Federal courts said that the act of a legislature violated one of these provisions it was blocked—rendered powerless by a dictum of the judges. I do not mean that these two clauses in the Constitution were the chief source of judicial power. That power has been due primarily to the traditional respect for the judicial office existing in the United States, which has rendered it almost impossible for any but men of learning and character to aspire to it; and, secondarily, to the very great ability that certain of the early American judges—notably Marshall, Story and Kent—showed in expounding the law in such manner as to command universal approval. But if these provisions did not lie at the foundation of the positive authority of the judges, they were unquestionably a most powerful instrument in practically limiting the authority of legislatures, and to that extent in strengthening the rights of the property holders.

The rights of individual owners against legislative interference were thus most fully protected. But how was it when property was in the hands of corporations?

Here also the power of control by the government was weakened and the rights and immunities of the property holders correspondingly strengthened by two events, whose effect upon the modern industrial situation may be fairly characterized as fortuitous. One of these was the decision in the celebrated Dartmouth College case in 1819; the other was the passage of the Fourteenth Amendment to the Constitution of the United States in 1868.

I call their effects fortuitous, because neither the judges who decided the Dartmouth College case nor the legislators who passed the Fourteenth Amendment had any idea how these things would affect the modern industrial situation. The Dartmouth College case dealt with an educational institution, not with an industrial enterprise. The Fourteenth Amendment was framed to protect the negroes from oppression by the whites, not to protect corporations from oppression by the legislature. It is doubtful whether a single one of the members of Congress who voted for it had any idea that it would touch the question of corporate regulation at all. Yet the two together have had the effect of placing the modern industrial corporation in an almost impregnable constitutional position.

In 1816 the New Hampshire legislature attempted to take away the charter rights of Dartmouth College. Daniel Webster was employed by the college in its defense, and his reasoning so impressed the court that they committed themselves to the position that a charter was a contract; that a state having induced people to invest money by certain privileges and immunities, could not at will modify those privileges and immunities thus granted. Whether the court would have taken so broad a position if the matter had come before it thirty or forty years later, when the abuses of ill-judged industrial charters had become more fully manifest, is not sure, but, having once taken this position and maintained it in a series of decisions, the court could not well recede from it. Inasmuch as many of the corporate charters granted by state legislation had an unlimited period to run, the theory that these instruments were contracts binding the state for all time had a very important bearing in limiting the field within which a legislature could regulate the activity of such a body, or an executive interfere with it.

Again, by the Fourteenth Amendment to the Constitution of the United States every state was forbidden to interfere with the civil

rights of any person or to treat different persons in an unequal way. This amendment to the Constitution, passed just after the close of the Civil War, was intended to prevent the Southern states readmitted, or on the point of being readmitted, to the Union from abridging the rights of the negro members of the commonwealth. A number of years elapsed before the effect of the amendment upon the constitutional position of railroad and industrial corporations seems to have been fully realized. But in 1882 the Southern Pacific Railroad Company, having been, as it conceived, unfairly taxed by the assessors of a certain county in California, took the position that a law of the state of California taxing the property of a corporation at a different rate from that under which similar property of an individual would be taxed was in effect a violation of the Fourteenth Amendment to the Constitution, because a corporation was a person and therefore entitled to equal treatment. This view, after careful consideration, was upheld by the Federal courts. A corporation, therefore, under the law of the United States, is entitled to the same immunities as any other person; and since the charter creating it is a contract, whose obligation cannot be impaired by the one-sided act of the legislature, its constitutional position as a property holder is much stronger than anywhere in Europe.

Under the circumstances, it is evident that large powers and privileges have been constitutionally delegated to private property in general and to corporate property in particular. I do not mean that property owners, and specifically the owners of corporate property, have more *practical* freedom from interference in the United States than they do in some other countries, notably in England. Probably they do not have as much. But their theoretical position—the sum of the conditions which affect their standing for the long future and not for the immediate present—is far stronger in the United States. The general status of the property owner under the law cannot be changed by the action of the legislature or the executive, or the people of a state voting at the polls, or all three put together. It cannot be changed without either a consensus of opinion among the judges, which should lead them to retract their old views, or an amendment of the Constitution of the United States by the slow and cumbersome machinery provided for that purpose, or, last—and I hope most improbable—a revolution.

When it is said, as it commonly is, that the fundamental division of powers in the modern state is into legislative, executive and judicial, the student of American institutions may fairly note an exception. The fundamental division of powers in the Constitution of the

United States is between voters on the one hand and property owners on the other. The forces of democracy on one side, divided between the executive and the legislative, are set over against the forces of property on the other side, with the judiciary as arbiter between them; the Constitution itself not only forbidding the legislature and executive to trench upon the rights of property, but compelling the judiciary to define and uphold those rights in a manner provided by the Constitution itself.

This theory of American politics has not often been stated. But it has been universally acted upon. One reason why it has not been more frequently stated is that it has been acted upon so universally that no American of earlier generations ever thought it necessary to state it. It has had the most fundamental and far-reaching effects upon the policy of the country. To mention but one thing among many, it has allowed the experiment of universal suffrage to be tried under conditions essentially different from those which led to its ruin in Athens or in Rome. The voter was omnipotent—within a limited area. He could make what laws he pleased, as long as those laws did not trench upon property right. He could elect what officers he pleased, as long as those officers did not try to do certain duties confided by the Constitution to the property holders. Democracy was complete as far as it went, but constitutionally it was bound to stop short of *social* democracy. I will not go so far as to say that this set of limitations on the political power of the majority in favor of the political power of the property owner has been a necessary element in the success of universal suffrage in the United States. I will say unhesitatingly that it has been a decisive factor in determining the political character of the nation and the actual development of its industries and institutions.

### 335. Ownership and Use<sup>1</sup>

BY HENRY CLAY

The old association between the ownership and use of wealth became impossible when wealth began to take the form of modern machinery, ships, and railways, and commerce, extended from the movement of luxuries in small quantities to the exchange of necessities in vast amounts between different continents. Legal devices for separating the ownership from the use and administration of capital became necessary, and reluctantly, and without any conscious-

<sup>1</sup>Adapted from *Property and Inheritance*, pp. 6-10. Published by the Daily News, Inc., 1923.

ness of the developments it was assisting, Parliament sanctioned joint stock companies with limited liability.

This separation of the ownership and use of wealth is not, of course, confined to the last hundred years. Interests were charged upon landed estates, and, at an earlier period, wardships and marriage and other feudal incidents were just as "abstract" and "functionless" forms of property as modern joint stock securities. But recently this separation has grown, and, as it grew, has revolutionized the legal aspect of property. Property originally was the legal right to the use of a thing, a right exercised by the owner; then there developed a tendency to exchange this right for a money income charged on the thing, and to relinquish the use of the thing itself to the person who undertook to pay the money income; latterly property has taken more and more the form of a bare right to money payments, obtained, not by foregoing the use of any particular concrete thing, but by transferring to the borrower the lender's right to spend his unspent income, and secured, not by being charged on some particular thing which the borrower uses, but simply by the borrower's undertaking to pay.

With this separation it has become possible to disentangle the different interests in any object of property. Just as the worker no longer makes a thing, which is the reward of his labor when it is made, but contributes his labor to an unending productive process in return for a money payment settled beforehand, so the capitalist hands over his capital in return for a share in the financial proceeds of a business in which he may take no active part. Less than half the property returned for estate-duty purposes consists of tangible possessions, more than half consists of contractual rights to money payments.

This disentangling of the different interests in material capital, and the easy transferability of rights to income which it makes possible, are at once a necessity to the social organization of modern industry and a convenience to the individual property-owner. They are the source of the elasticity and adaptability of modern industry that makes it possible to apply capital wherever exceptional natural resources, exceptional managerial ability, or an exceptional economic need offer remunerative employment for capital. It facilitates the social regulation of industry by legislation and trade-union action. It enables the individual owner to spread his risks, to participate in the profits of enterprises which he could never have undertaken himself, and to anticipate or postpone, as suits him best, any income to which he is entitled. But, if convenient, it is an arrangement of doubtful



stability; the property-owner, who considers the present status of property, has good reason to be nervous.

In the first place, owing to this change, property has lost the obvious *prima facie* justification that attaches to tools in the possession of their user, land in the occupation of peasant proprietors, houses and furniture in the possession of their users; it may be doubted whether respect for property rights, derived from a time when these were the typical forms of property, will indefinitely afford a support for the security of property rights of a very different order.

In the second place, property rights based entirely on contract, unsupported by the actual possession of any material object, are liable to insidious attacks by the very authority by which they are created and maintained. The state makes them possible by its legislation and upholds them by its police power; but by its legislation it is constantly modifying the content of property rights, and by its financial policy it is constantly altering their value. The Russian delegates at Genoa pointed out that, in extinguishing property rights without compensation, the revolutionary government could cite the precedent of the United States of America, which first extinguished property rights in slaves, and, more recently, destroyed the value of property in breweries and distilleries, without any compensation; they might have pointed out that all the belligerent powers, by their inflationary policy, had at least halved, and in some cases extinguished, the value of their leading gilt-edged securities, without compensation and almost without comment.

In the third place, property must be unstable so long as it is so unevenly distributed. The ideal of democratic equality may still be the ideal of a minority, but it is a growing minority, and the existing distribution of property is the most glaring denial of it. Whatever social justification the institution of property may possess—that it has a great potential value I shall try to show in a moment—the number of citizens who have actual experience of its benefits is too few to insure the general appreciation that is necessary to stability.

To sum up, property in the last century has changed its form and become concentrated in few hands. The growing inequality of distribution has come about in an age which was becoming less and less tolerant of social inequality; the change of form, with its separation of ownership from use or control, has made it possible to substitute some form of public control for private control, and perhaps a quarter of the country's wealth is now so publicly controlled.

## C. INDUSTRIAL LIBERTY

336. The Mediatory Character of Freedom<sup>a</sup>

BY THOMAS HILL GREEN

We shall probably all agree that freedom, rightly understood, is the greatest of blessings. But when we thus speak of freedom, we do not mean freedom from restraint or compulsion. We do not mean merely freedom to do as we like quite irrespective of what it is that we like. We do not mean a freedom that can be enjoyed by one man at a cost of a loss of freedom to others. We mean rather a positive power of doing or enjoying something that is worth doing or enjoying, and that, too, something that we do or enjoy in common with others. We mean by it a power which each man exercises through the help or security given him by his fellow-men, and which in turn he helps to secure for them. When we measure the progress of a society by its growth in freedom, we measure it by the increasing development on the whole of those powers of contributing to social good with which we believe the members of the society to be endowed; in short, by the greater power on the part of the citizens to make the most and best of themselves.

Thus, though there can be no freedom among men who act under compulsion, yet the mere removal of compulsion is in itself no contribution to true freedom. In one sense no man is so well able to do what he likes as the wandering savage. He has no master. There is no one to say him nay. Yet we do not count him really free, because the freedom of savagery is not strength, but weakness. The actual powers of the noblest savage do not compare with those of the humblest citizen of a law-abiding state. He is not the slave of man, but he is the slave of nature. Of compulsion by natural necessity he has plenty of experience, though of restraint by society none at all. Nor can he deliver himself from that compulsion except by submitting to this restraint. So to submit is the first step in true freedom, because the first step in the exercise of the faculties with which man is endowed.

But we rightly refuse to recognize the highest development on the part of an exceptional individual or exceptional class, as an advance toward the true freedom of man, if it is founded on a refusal of the same opportunity to other men. The powers of the human mind have probably never attained such force and keenness as among the small groups of men who possessed civil privileges

<sup>a</sup>Adapted from the "Lecture on Liberal Legislation and Freedom of Contract," *Works*, III, 370-73. Edited by R. L. Nettleship, 1880

in the small republics of antiquity. But the civilization and freedom of the ancient world were short-lived because they were partial and exceptional. If the ideal of true freedom is the maximum of power for all the members of human society to make the best of themselves, we are right in ranking modern society, with all its confusion and ignorant license and waste of effort, above the most splendid of ancient republics.

If I have given a true account of that freedom which forms the goal of social effort, we shall see that freedom of contract is valuable only as a means to an end. That end is what I call freedom in the positive sense, the liberation of the powers of all men equally for contribution to a common good.

### 337. Contract and Personal Responsibility<sup>a</sup>

BY ARTHUR T. HADLEY

A statement of the history of modern freedom, and one that ought to command assent in the twentieth century, is that it represents a passage from a system of obligations imposed by the community to a system of self-imposed obligations. Duty, in the early stages of society, is enforced by lynch law. In the later stages it is enforced by the individual conscience. It is not that the obligations recognized are narrower or less exacting in the latter case than in the former. They tend to become wider and more exacting. But the method of enforcement allows the individual to get at things in his own way. We have passed from a system of status, where each man was born into a set of legal rules and duties imposed upon him for all time, to a system of contract, where each man's rights and duties are largely those which he has made for himself. This change has not enabled man to relieve himself of obligations to his fellow-men. It has allowed these obligations to take forms suited to the varied powers of the individual and the varied needs of society. We can trace at least some of the stages in this process of evolution.

The system of caste, or status, is a survival of the old tribal organization, where law and morals were undistinguished; where social arrangements existed by the authority of the gods; and where any attempt to disturb them was an act of sacrilege. In course of time, however, there came about an alteration in character of the legal penalties. Where one man had wronged another unintentionally, it became possible not only to inflict punishment, but to exact compensation. Instead of the fine which was exacted for an offense

<sup>a</sup>Adapted from *The Relations between Freedom and Responsibility in the Evolution of Democratic Government*, pp. 74-83. Copyright by Yale University Press, 1903.

against public order, the community could compel the payment of damages to make good the loss to the person injured. Even where the wrong was intentional the idea of compensation could enter into the penalty. When once the legal authorities grasped this possibility of using a civil remedy, instead of a criminal one, it became possible to allow to any man who could pay substantial damages a degree of personal liberty which was not possible under a system where every infraction of others' rights must be treated as a crime and visited by criminal penalties.

From the development of civil damages it was but a short step to the system of contracts. The essential idea of a contract is that one or both parties agree to perform a certain service at a future time. The obligation which a man assumes in a contract is voluntary until he has made the agreement. After that society will compel him to pay damages for its breach, just as it would compel him to pay damages for the breach of any of the other rights of his fellow citizens. It is therefore, in its very essence, a combination of freedom and responsibility. It is a means which the community can adopt for getting work done by the voluntary assumption of obligations on the part of its members. These obligations they can be compelled to perform or to furnish compensation to the other party. Among the many brilliant contributions of the Roman lawyers to the progress of civilization, there was probably none so far-reaching as their development of the theory of contract. For, wherever this theory was applied, it taught people that the exercise of freedom involved the assumption of responsibility, and could safely be combined with it.

The lesson was not easy to learn, and the Roman lawyers did not succeed in teaching it to the civilized world for all time. The irruption of the barbarians into Europe brought with it, under the feudal system, a nearly complete return to the old theory of a status. But with the close of the feudal period the ideas of the Roman law were taken up and widely expanded. The power of making a contract, under the old Roman law, had been practically limited to the few men who could furnish security for the performance of their obligations. It belonged chiefly to the minority of freemen who enjoyed the benefits of slavery. At the close of the Middle Ages, however, the reintroduction of the idea of contractual obligation as a basis for social order was accompanied by a system of emancipation which gave the laborer a certain amount of property right in the product of his toil. The substitution of industrial for military tenure put a much larger number of people in a position to furnish security. It enabled the people as a whole, instead of the privileged

few, to enjoy the system of education in responsibility which marks the growth of contract law.

For our modern law of contract is a most valuable system of moral education, operating alike upon lawyers and upon laymen, and enabling us to make progress both in our judicial ethics and in our general tone of public morality. The whole English commercial law of the seventeenth and eighteenth centuries, with its distinctions, sometimes fine drawn but always well drawn in matters like agency or warranty, competence or negligence, involves a systematic enforcement of responsibility under the forms of freedom. If we wish to see what this legal development has accomplished in the way of introducing responsibility, we have only to contrast our standards of practice and ethics in those lines where commercial law has been developing for centuries with those where its application is comparatively new. If I sell a cow on the basis of certain representations, which prove to be false, the law holds me to an implied contract of warranty, even if I have explicitly disclaimed any intention to warrant the animal. If I sell a railroad under similar circumstances the law offers the sufferer no corresponding remedy; and no small section of the public applauds the seller for the shrewdness which he has displayed in the transaction. If I use an individual position of trust to enrich myself at the expense of others, the law will compel me to make restitution, even where criminal intent was absent. But if I profit by similar errors in the management of a corporate trust, the difficulty of bringing the responsibility home is great indeed.

It is the ideal of a free community to give liberty wherever people are sufficiently advanced to use it in ways which shall benefit the public, instead of ways which will promote their own pleasure at the public expense. And it has been the practice of the most successful communities to go farther than this, and give freedom somewhat in advance of this ethical development. Liberty is directly advantageous wherever the ethical development of the community fits people for its use; it is likely to prove indirectly advantageous wherever there is a fair prospect that they can be taught to improve their ethical standards in the immediate future.

### 338. Labor and Freedom of Contract<sup>10</sup>

#### *What "Freedom of Contract" Has Meant to Labor*

1. Denial of eight-hour law for women in Illinois.
2. Denial of eight-hour law for city labor or for mechanics and ordinary laborers.

<sup>10</sup>Adapted from a bulletin used at the Chicago Industrial Exhibit in 1906.

3. Denial of ten-hour law for bakers.
4. Inability to prohibit tenement labor.
5. Inability to prevent by law employer from requiring employee as condition of securing work, to assume all risk from injury while at work.
6. Inability to prohibit employer selling goods to employees at greater profit than to non-employees.
7. Inability to prohibit mine owners screening coal which is mined by weight before crediting same to employees as basis of wages.
8. Inability to legislate against employer using coercion to prevent employee becoming a member of a labor union.
9. Inability to restrict employer in making deductions from wages of employees.
10. Inability to compel by law payment of wages at regular intervals.
11. Inability to provide by law that laborers on public works shall be paid prevailing rate of wages.
12. Inability to compel by law payment of extra compensation for overtime.
13. Inability to prevent by law employer from holding back part of wages.
14. Inability to compel payment of wages in cash; so that employer may pay in truck or scrip not redeemable in lawful money.
15. Inability to forbid alien labor on municipal contracts.
16. Inability to secure by law union label on city printing.

### 339. Static Assumptions of Contractual Freedom<sup>11</sup>

BY ROSCOE POUND

"The right of a person to sell his labor," says Mr. Justice Harlan, "upon such terms as he deems proper is, in its essence, the same as the right of the purchaser of labor to prescribe the conditions upon which he will accept such labor from the person offering to sell it. So the right of the employee to quit the service of the employer, for whatever reason, is the same as the right of the employer, for whatever reason, to dispense with the services of such employee. In all such particulars the employer and employee have equality of right, and any legislation that disturbs that right is an arbitrary interference with the liberty of contract, which no government can

<sup>11</sup>Adapted from "Liberty of Contract," in *Yale Law Journal* (1909), XVIII, 454-87.

legally justify in a free land."<sup>12</sup> With this positive declaration of a lawyer, the culmination of a line of cases now nearly twenty-five years old, a statement which a recent writer on the science of jurisprudence has deemed so fundamental as to deserve quotation and exposition at an unusual length, let us compare the equally positive statement of a sociologist: "Much of the discussion about 'equal rights' is utterly hollow. All this ado about the system of contract is surcharged with fallacy."

To everyone acquainted with the facts at first hand the latter statement goes without saying. Why, then, do the courts persist in the fallacy? Why do so many of them force upon legislation an academic theory of equality in the face of practical inequality? Why do we find a great and learned court in 1908 taking a long step into the past of dealing with the relations between employer and employee in railway transportation, as if the parties were individuals, as if they were farmers haggling over the sale of a horse? Why is the legal conception of the relation of employer and employee so at variance with the common knowledge of mankind? Surely the cause of such doctrine must lie deep. Let us enquire then what these causes are and how they have operated to bring about the present state of the law of freedom of contract.

There is no doubt that the theory of "natural rights" is at the basis of modern conceptions of freedom of contract. This began as a doctrine of political economy, as a phase of Adam Smith's doctrine which we commonly call *laissez faire*. It was propounded as a utilitarian principle of politics and legislation by Mill. Spencer derived it from his formula of justice. In this way it became a chief article in the creed of those who sought to minimize the functions of the state, to insist that the most important of its functions was to enforce by law the obligations created by contract. This theory has shown itself present in both legislation and judicial decisions. As a consequence the doctrine of liberty of contract is bound up in the decisions of our courts with a narrow view as to what constitutes special or class legislation, that greatly limits effective law making. For one thing there is the doctrine that apart from constitutional restrictions there are individual rights resting on a natural basis, to which the courts must give effect, beyond the control of the state. "In the judicial discussions of liberty of contract this idea has been very prominent. One court reminds us that natural persons do not derive their right to contract from the law."<sup>13</sup> Another court in passing adversely upon legislation against company stores,

<sup>12</sup>*Adair v. U.S.*, 208 U.S. 161.

<sup>13</sup> 58 Ark. 407.

says any classification is arbitrary and unconstitutional unless it proceeds on "the natural capacity of persons to contract."<sup>14</sup> Another, in passing on a similar statute, denies that contractual capacity can be restricted except for physical or mental disabilities.<sup>15</sup> Another holds that the legislature cannot take notice of the *de facto* subjection of one class of persons to another in making contracts of employment in certain industries, but must be governed by the theoretical jural equality.<sup>16</sup>

Not only, however, is natural law the fundamental assumption of our law and legal philosophy, but we must not forget that it is the theory of our bill of rights. Not unnaturally the courts have clung to it as being the orthodox theory of constitutions. But the fact that the framers held that theory by no means demonstrates that they intended to impose the theory on us for all time. They laid down principles, not rules, and rules can only be illustrations of principles so long as the facts and opinions remain what they were at the time when the rules were announced. Forgetfulness of this latter fact and an intense zeal for natural rights theory has led to a desire to extend this freedom as far as possible and to limit as much as possible whatever would tend to interfere with this, such as the number and kinds of incapacities which would justify a restraint of this liberty. The decisions of the courts plainly reveal this. They agree that the term "liberty" is broader than Coke's use of it, that the fact that Coke confined it to freedom of physical motion and locomotion does not exclude a broader interpretation today. Yet the same courts that recognize that liberty must include more today than it did as used in Coke's *Second Institute*, lay it down that the incapacities are to remain what they were at the common law, that new incapacities of fact, arising out of present industrial situations, may not be recognized by legislation. Restraints upon that freedom must find some justification in the existence of like limitations recognized at the old common law.

This appears perhaps no more clearly than in the efforts of the courts to reconcile the existence of usury laws with their notion of liberty of contract. As was said in 113 Pa. St. 427, "The right to regulate the rate of interest existed at the time the constitution was adopted, and cannot, therefore, be considered either an abridgment or restraint upon the rights of the citizen, guaranteed by the constitution. The power to pass usury laws exists by immemorial usage; but such is not the case with such acts as we are considering." That

<sup>14</sup> 115 Mo. 307.

<sup>15</sup> 33 W. Va. 188.

<sup>16</sup> 61 Kas. 140.



narrow assumptions underlie conceptions of contractual capacities also receives exemplification in connection with judicial discussions of usury laws. For instance in *Fraser v. People*,<sup>17</sup> the court said, "Usury laws proceed upon the theory that the lender and the borrower of money do not occupy toward each other the same relations of equality that parties do in contracting with each other in regard to the loan or sale of other kinds of property, and that the borrower's necessities deprive him of freedom in contracting and place him at the mercy of the lender, and such laws may be found on the statute books of all civilized nations of the world, both ancient and modern." It does not even seem to have occurred to Justice Scholfield that the necessities of the miner or factory employee might impair his freedom of contract as well. And instances might be multiplied, showing the purely individualistic character of all natural law theories, and the legal decisions based upon them.

#### 340. Contractual Rights—Legal and Real<sup>18</sup>

BY THORSTEIN VEBLIN

The movement of opinion on natural-rights grounds converged to an insistence on the system of natural liberty, so-called. But this insistence on natural liberty did not contemplate the abrogation of all conventional prescription. "The simple and obvious system of natural liberty" meant freedom from restraint on any other prescriptive ground than that afforded by the rights of ownership. In its economic bearing the system of natural liberty meant a system of free pecuniary contract. "Liberty does not mean license"; which in economic terms would be transcribed, "The natural freedom of the individual must not traverse the prescriptive rights of property." Property rights being included among natural rights, they had the indefeasibility which attaches to natural rights. Natural liberty prescribes freedom to buy and sell, limited only by the equal freedom of others to buy and sell; with the obvious corollary that there must be no interference with others' buying and selling, except by means of buying and selling.

Presently, when occasion arose in America, the metaphysics of natural liberty was embodied in set form in constitutional enactments. It is, therefore, involved in a more authentic form and with more incisive force in the legal structure of this community than

<sup>17</sup> 141 Ill. 171.

<sup>18</sup> Adapted from *The Theory of Business Enterprise*, pp. 271-78. Copyright by Charles Scribner's Sons, 1904.

in that of any other. Freedom of contract is the fundamental tenet of the legal creed, so to speak, inviolable and inalienable; and within the province of law and equity no one has competence to penetrate behind this first premise or to question the merits of the natural-rights metaphysics on which it rests. The only principle which may contest its primacy in civil matters is the vague "general welfare" clause, and even this can effectively contest its claims only under exceptional circumstances. Under the application of any general welfare clause the presumption is, and always must be, that the principle of free contract be left intact so far as the circumstances will permit. The citizen may not be deprived of life, liberty, or property without due process of law, and the due process proceeds on the premise that property rights are inviolable. In its bearing upon economic relations between individuals this comes to mean, in effect, not only that one individual or group of individuals may not legally bring any other than pecuniary pressure to bear upon another individual or group, but also that pecuniary pressure cannot be barred.

Now, through gradual change of the economic conditions, this conventional principle of unmitigated and inalienable freedom of contract began to grow obsolete from the moment when it was fairly installed; obsolescent, of course, not in point of law, but in point of fact. The machine process has invaded the field. The standardization and the constraint of the system of machine industry differs from what went before it in that it has no conventional recognition, no metaphysical authentication. The machine process has not itself become a legal fact. Therefore it neither can or need be taken account of by the legal mind. It does not exist *de jure* but *de facto*.

The "natural," conventional freedom of contract is sacred and inviolable. The *de facto* freedom of choice is a matter about which the law and the courts are not competent to enquire. By force of the concatenation of industrial processes and the dependence of men's comforts or subsistence upon the orderly working of these processes, the exercise of the rights of ownership in the interests of business may traverse the *de facto* necessities of a group or class; it may even traverse the needs of the community at large, for example, in the conceivable case of an advisedly instituted coal famine; but since the necessities or comforts of livelihood cannot be formulated in terms of the natural freedom of contract, they can, in the nature of the case, give rise to no cognizable grievance and find no legal remedy.

## D. THE PLACE OF THE COURTS

341. The Intent of the Law<sup>19</sup>

BY MUNROE SMITH

In their effort to give to the social sense of justice articulate expression in rules and in principles, the method of the law-finding experts has always been experimental. The rules and principles of case law have never been treated as final truths, but as working hypotheses, continually retested in those great laboratories of the law, the courts of justice. Every new case is an experiment; and if the accepted rule which seems applicable yields a result which is felt to be unjust, the rule is reconsidered. It may not be modified at once, for the attempt to do absolute justice in every single case would make the development and maintenance of general rules impossible; but if a rule continues to work injustice, it will eventually be reformulated. The principles themselves are continually retested; for if the rules derived from a principle do not work well, the principle itself must ultimately be re-examined.

342. Law and Experience<sup>20</sup>

BY OLIVER WENDELL HOLMES

The life of the law has not been logic: it has been experience. The felt necessities of the time, the prevalent moral and political theories, institutions of public policy, even the prejudices which judges share with their fellow-men, have had a good deal more to do than the syllogism in determining the rules by which men should be governed.

On the other hand, in substance the growth of the law is legislative. And this in a deeper sense than that which the courts declare to have always been the law is in fact new. It is legislative in its grounds. The very considerations which judges most rarely mention, and always with an apology, are the secret roots from which the law draws all the juices of life. I mean, of course, considerations of what is expedient for the community concerned. Every important principle which is developed by litigation is in fact and at bottom the result of more or less definitely understood views of public policy; most generally to be sure, under our practice and traditions, the unconscious result of instinctive preferences and inarticulate convictions, but none the less traceable to views of public policy in the last analysis.

<sup>19</sup>From *A Lecture on Jurisprudence*, p. 21. Copyright by the Columbia University Press, 1909.

<sup>20</sup>Adapted from *The Common Law*, p. 1 (1881).

343. How a Judge Decides<sup>21</sup>

BY BENJAMIN N. CARDOZA

The work of deciding cases goes on every day in hundreds of courts throughout the land. Any judge, one might suppose, would find it easy to describe the process which he had followed a thousand times and more. Nothing could be farther from the truth. Let some intelligent layman ask him to explain; he will not go very far before taking refuge in the excuse that the language of craftsmen is unintelligible to those untutored in the craft.

What is it that I do when I decide a case? To what sources of information do I appeal for guidance? In what proportions do I permit them to contribute to the result? In what proportions ought they to contribute? If a precedent is applicable, when do I refuse to follow it? If no precedent is applicable, how do I reach the rule that will make a precedent for the future? If I am seeking logical consistency, the symmetry of the legal structure, how far shall I seek it? At what point shall the quest be halted by some discrepant custom, by some consideration of the social welfare, by my own or the common standards of justice and morals? Into that strange compound which is brewed daily in the caldron of the courts, all these ingredients enter in varying proportions.

Where does the judge find the law which he embodies in his judgment? There are times when the source is obvious. The rule that fits the case may be supplied by the constitution or by statute. If that is so, the judge looks no farther. But we reach the land of mystery when constitution and statute are silent, and the judge must look to the common law for the rule that fits the case. He is the "living oracle of the law," in Blackstone's vivid phrase. Looking at Sir Oracle in action, viewing his work in the dry light of realism, how does he set about his task?

The first thing he does is to compare the case before him with the precedents, whether stored in his mind or hidden in the books. I do not mean that precedents are ultimate sources of the law, supplying the sole equipment that is needed for the legal armory, the sole tools, to borrow Maitland's phrase, "in the legal smithy." Back of precedents are the basic juridical conceptions which are the postulates of judicial reasoning, and farther back are the habits of life, the institutions of society, in which those conceptions had their origin, and which, by a process of interaction, they have modified in turn. None the less, in a system so highly developed as our own, precedents have

<sup>21</sup>Adapted from *The Nature of the Judicial Process*, pp. 9-10, 14, 18-31. Copyright by Yale University Press, 1921.

so covered the ground that they fix the point of departure from which the labor of the judge begins. It is a process of search, comparison, and little more. Some judges seldom get beyond that process in any case. Their notion of their duty is to match the colors of the case at hand against the colors of many sample cases spread out upon their desks. The sample nearest in shade supplies the applicable rule.

But, of course, no system of living law can be evolved by such a process, and no judge of a high court, worthy of his office, views the function of his place so narrowly. If that were all there was to our calling, there would be little of intellectual interest about it. The man who had the best card index of the cases would also be the wisest judge. It is when the colors do not match, when the references in the index fail, when there is no decisive precedent, that the serious business of the judge begins. He must then fashion law for the litigants before him. In fashioning it for them, he will be fashioning it for others. The sentence of today will make the right and wrong of tomorrow. If the judge is to pronounce it wisely, some principles of selection there must be to guide him among all the potential judgments that compete for recognition.

In the life of the mind as in life elsewhere, there is a tendency toward the reproduction of kind. Every judgment has a generative power. It begets in its own image. Every precedent, in the words of Redlich, has a "directive force for future cases of the same or similar nature." Until the sentence was pronounced, it was as yet in equilibrium. Its form and content were uncertain. Any one of many principles might lay hold of it and shape it. Once declared, it is a new stock of descent. It is charged with vital power. It is the source from which new principles or norms may spring to shape sentences thereafter. Not all the progeny of principles begotten of a judgment survive, however, to maturity. Those that cannot prove their worth and strength by the test of experience are sacrificed mercilessly and thrown into the void. The common law does not work from pre-established truths of universal and inflexible validity to conclusions derived from them deductively. Its method is inductive, and it draws its generalizations from particulars.

The way in which this process of retesting and reformulating works, may be followed in an example. Fifty years ago, I think it would have been stated as a general principle that A may conduct his business as he pleases, even though the purpose is to cause loss to B, unless the act involves the creation of a nuisance. Spite fences were the stock illustration, and the exemption from liability in such circumstances was supposed to illustrate not the exception, but the rule. Such a rule may have been an adequate working principle to regulate

the relations between individuals or classes in a simple or homogeneous community. With the growing complexity of social relations, its inadequacy was revealed. As particular controversies multiplied and the attempt was made to test them by the old principle, it was found that there was something wrong in the results, and this led to a reformulation of the principle itself. Today, most judges are inclined to say that what was once thought to be the exception is the rule, and what was the rule is the exception. A man may never do anything in his business for the purpose of injuring another without reasonable and just excuse.

There has been a new generalization which, applied to new particulars, yields results more in harmony with past particulars, and, what is still more important, more consistent with the social welfare. This work of modification is gradual. It goes on inch by inch. Its effects must be measured by decades and even centuries. Thus measured, they are seen to have behind them the power and the pressure of the moving glacier.

We are not likely to underrate the force that has been exerted if we look back upon its work. "There is not a creed which is not shaken, not an accredited dogma which is not shown to be questionable, not a received tradition which does not threaten to dissolve." Those are the words of a critic of life and letters writing forty years ago, and watching the growing skepticism of his day. I am tempted to apply his words to the history of the law. Hardly a rule of today but may be matched by its opposite of yesterday. Absolute liability for one's acts is today the exception: there must commonly be some tinge of fault, whether wilful or negligent. Time was, however, when absolute liability was the rule. Occasional reversions to the earlier type may be found in recent legislation. Mutual promises give rise to an obligation, and their breach to a right of action for damages. Time was when the obligation and the remedy were unknown unless the promise was under seal. Rights of action may be assigned, and the buyer prosecute them to judgment though he bought for purposes of suit. Time was when the assignment was impossible, and the maintenance of the suit a crime. It is no basis today for an action of deceit to show, without more, that there has been the breach of an executory promise; yet the breach of an executory promise came to have a remedy in our law because it was held to be a deceit. These changes or most of them have been wrought by judges. The men who wrought them used the same tools as the judges of today. The changes, as they were made in this case or that, may not have seemed momentous in the making.

The result, however, when the process was prolonged throughout

the years, has been not merely to supplement or modify; it has been to revolutionize and transform. For every tendency, one seems to see a counter-tendency; for every rule its antinomy. Nothing is stable. Nothing absolute. All is fluid and chargeable. There is an endless "becoming." We are back with Heraclitus. That, I mean, is the average or aggregate impression which the picture leaves upon the mind. Doubtless in the last three centuries, some lines, once wavering, have become rigid. We leave more to legislatures today, and less perhaps to judges. Yet even now there is change from decade to decade. The glacier still moves.

In this perpetual flux, the problem which confronts the judge is in reality a twofold one: He must first extract from the precedents the underlying principle, the *ratio decidendi*; he must then determine the path or direction along which the principle is to move and develop, if it is not to wither and die.

The first branch of the problem is the one to which we are accustomed to address ourselves more consciously than to the other. Cases do not unfold their principles for the asking. They yield up their kernel slowly and painfully. The instance cannot lead to a generalization until we know it as it is. That in itself is no easy task. For the thing adjudged comes to us oftentimes swathed in obscuring dicta, which must be stripped off and cast aside. Judges differ greatly in their reverence for the illustrations and comments and side-remarks of their predecessors, to make no mention of their own. There is the constant need, as every law student knows, to separate the accidental and the nonessential from the essential and inherent. Let us assume, however, that this task has been achieved, and the precedent is known as it really is. Let us assume, too, that the principle, latent within it, has been skilfully extracted and accurately stated. Only half or less than half of the work has yet been done. The problem remains to fix the bounds and the tendencies of development and growth, to set the directive force in motion along the right path at the parting of the ways.

The directive force of a principle may be exerted along the line of logical progression; this I will call the rule of analogy or the method of philosophy; along the line of historical development; this I will call the method of evolution; along the line of the customs of the community; this I will call the method of tradition; along the lines of justice, morals and social welfare, the mores of the day; and this I will call the method of sociology.

344. The Validity of Social Legislation<sup>22</sup>

The line which marks the limit of the province of government in dealing with industry is not fixed beyond peradventure. The older economics was in theory content to leave all questions affecting the conduct of an industry to individuals who, acting in competition with one another, were compelled to act in accordance with natural laws. This economic dictum found a legal likeness in the doctrine that all rights belonging to individuals, and not by them transferred to the state through constitutional enactment, were reserved to the people. Later it received more explicit constitutional standing in the Fifth and the Fourteenth Amendments which prohibit the government from taking from an individual, and by interpretation from a corporation, "life, liberty, or property," "without due process of law." The former is a prohibition against federal, the latter against state authority. The nature of the prohibition, and even the words in which it is legally expressed, are the same in the two cases.

The issue turns upon the expressions "liberty," "property," and "due process of law." In terms of the competitive theory, wages, hours, safety conditions, and whatnot are to be determined by contract between "master and servant." In the same way, price, quality, cheapness, and the like are similarly determined between seller and buyer. Since the right to contract about each of these matters is both a "liberty" and a property right, the abrogation or limitation of such right by legislation or regulation is clearly a denial both of liberty and of property.<sup>23</sup> But it is not for that reason necessarily invalid or unconstitutional; for the prohibition is not against deprivation of liberty or property, but against such deprivation without due process of law. The question, therefore, turns upon the meaning of the most mooted phrase in all constitutional law.

But what, pray, is meant by "due process of law"? The answer is at once simple and bewildering. Legislation which restricts the contractual rights of buyers or sellers, of masters or of servants, and which is not necessary to promote "public health," "public safety," or "public welfare" runs afoul of this clause. "But it is no check upon the power vested in the legislature to make such laws as they shall judge to be for the good of the commonwealth and its subjects."<sup>24</sup> "The police power," which is authority to regulate free

<sup>22</sup>An editorial (1924).

<sup>23</sup>Roscoe Pound, "Liberty of Contract," *Yale Law Review*, XVIII, 454, and cases cited.

<sup>24</sup>*Bacon v. Walker*, 204 U.S. 311.



from any constitutional prohibition, "may be said in a general way" to extend "to all the great public needs."<sup>25</sup> "It may be put forth in aid of what is sanctioned by usage, or held by the prevailing morality, or strong and preponderant opinion, to be greatly and immeasurably necessary to the public welfare."<sup>26</sup> If the intent of the law is to promote the health or the wealth of some particular group, as, for example, bakers, churchwardens, or coal-miners, or of those concerned with some particular industry, like banking, cosmetics, or coal-mining, such "classification" must "rest upon some difference which there may be as a reasonable and just relation to the act in respect to which the classification is proposed."<sup>27</sup>

Beyond this simple statement, however, all is confusion. When the issue ascends from abstraction to the realities of the everyday world, it is by no means clear what can and cannot be done without violence to the due process clause. But since men are not of a mind, conditions change and with public necessity, and professional ideas of the reasonable and the good do not remain fixed, the question of the validity of legislative acts becomes a matter of opinion. The issue becomes whose opinion is to be decisive and how it is to be made up. If Congress or a state legislature passes a law lifting a matter out from under the domain of contract, the inference is that the enacting body regards the measure in question as serving the public purpose. The United States has consistently held that "in adjusting legislation to the needs of the people of a state the legislature has a wide discretion."<sup>28</sup> But the court has insisted upon deciding for itself the propriety and the relevancy to its ends of many exercises of regulatory authority.

The gamut, therefore, which regulatory measures have to run is the conviction of the majority of the court that they do not promote the general welfare. In this exercise of judicial veto, no legal question is at issue. All parties are agreed that denials of liberty and of property can be divided into those which do and those which do not promote the larger interest. The real question is whether a particular law shortening hours, establishing a standard of quality, or ridding the industry of establishments which are a public nuisance makes a specific contribution to the welfare of the people of the commonwealth. Such questions are economic questions, to be settled by an interpretation of the facts. The question of constitutionality, there-

<sup>25</sup>*Noble State Bank v. Haskell*, 219 U.S. 104.

<sup>26</sup>*Canfield v. U.S.*, 167 U.S. 518.

<sup>27</sup>*Gulf Ry. Co. v. Ellis*, 165 U.S. 155.

<sup>28</sup>*Truax v. Corrigan*, 257 U.S. 312.

fore, is settled by the economic opinions of the majority of the justices, based upon whatever economic information or misinformation they come to possess. The legal opinions are simply the rhetoric in which their economic arguments are written.<sup>29</sup> It goes without saying that frequently, if not persistently, the nine justices will differ among themselves; that questions are decided one way at one time and another at another; and that the line between the constitutional and the unconstitutional refuses to stay put.

It is therefore to be expected that with our industrial development the regulative authority of the government has been growing. Little by little the matters which make up the relations of the employer and the employee have been lifted out from the domain of contract and have been fixed by legislation. The right of the state to fix hours of labor, once a concession to women<sup>30</sup> and to men in dangerous occupations,<sup>31</sup> is now almost universally recognized.<sup>32</sup> In various forms, laws making employers liable for injuries to their workmen "arising out of or in course of employment" have been upheld.<sup>33</sup> A state law which holds accidents to be a necessary incidence of industry, for which no one personally is to blame, has run the gauntlet of validity by the margin of a single vote. In the words of the court, "Liability may be imposed upon the employer without fault."<sup>34</sup> Legislation affecting the relations of the mine-worker to his employer has become common. Laws providing for safety, fixing hours, compensating for accidents, and prohibiting payment in script have all been found to be "not wanting in due process."<sup>35</sup> The court, in finding valid a law providing for paying mine-workers by run of mine, declared:

We are unable to say . . . that this law had no reasonable relation to the protection of a large class of laborers in the receipt of their just dues and the promotion of the harmonious relations of capital and labor engaged in a great industry.<sup>36</sup>

Surely this would cause the righteous judge of old, who outlawed

<sup>29</sup>Cf. T. R. Powell, "The Logic and Rhetoric of Constitutional Law," *Journal of Philosophy, Psychology, and Scientific Method* (Nov. 21, 1918), pp. 645 ff.

<sup>30</sup>*Muller v. Oregon*, 208 U.S. 412.

<sup>31</sup>*Holden v. Hardy*, 169 U.S. 366.

<sup>32</sup>*Bunting v. Oregon*, 243 U.S. 426.

<sup>33</sup>*Employers' Liability Cases*, 207 U.S. 463; *Second Employers' Liability Cases*, 223 U.S. 1.

<sup>34</sup>*Arizona Employers' Liability Cases*, 250 U.S. 400.

<sup>35</sup>*Wilmington Star Mining Co. v. Fulton*, 205 U.S. 60.

<sup>36</sup>*McLean v. Arkansas*, 211 U.S. 539.

a statute providing for the payment of wages in money as "degrading and insulting to the laborer" and "subversive of his rights as a citizen,"<sup>87</sup> to turn in his grave.

But this means neither that the struggle for the right to regulate the labor contract has been won nor that even the expert can say before the fact whether a particular statute meets the test of due process. Legislation designed to give stability to industrial relations by preventing employers from discriminating against union men has never won the approval of the majority of the court.<sup>88</sup> A federal law, regulating wages of railroad workers, was once held valid, even though the members who made up the majority could not travel the same logical road to the conclusion.<sup>89</sup> This, however, had a threatened railroad strike back of it to make it serve the common weal; at present, there is little likelihood that an attempt to fix rates of wages by authority would be favorably considered. Moreover, an advanced bit of legislation, which once wins the favor of the court, may at a later date lose its constitutional position. It is of note that laws fixing a minimum wage for women workers were constitutional from April 9, 1917,<sup>40</sup> to April 9, 1923.<sup>41</sup>

The same halting and irregular line separates legislation in behalf of the consumer which meet the test of "due process" from that which is repugnant to it. Ancient usage is responsible for a constitutional grant to Congress of the authority to "fix the standard of Weights and Measures."<sup>42</sup> The government has always had the right to fix maximum interest rates,<sup>43</sup> in an emergency to determine maximum rentals,<sup>44</sup> and only in grave national crises to regulate general prices. It may at any time determine the schedule of charges for "ferries, common carriers, hackmen, bakers, millers, wharfingers" and "innkeepers";<sup>45</sup> but not the price of coal. It may protect the quality of the goods and services which the consumer buys. This intent finds expression in anti-adulteration and pure-food acts.<sup>46</sup> It has likewise

<sup>87</sup>*Godcharle v. Wigiman*, 113 Pa. St. 431.

<sup>88</sup>*Adair v. U.S.*, 208 U.S. 161; *Coppage v. Kansas*, 236 U.S. 1.

<sup>89</sup>*Wilson v. New*, 243 U.S. 332.

<sup>40</sup>*Stettler v. O'Hara*, 243 U.S. 629.

<sup>41</sup>*Adkins v. Children's Hospital of the District of Columbia*, 261 U.S. 525.

<sup>42</sup>*Ford v. R. Co.*, 33 App. Div. 474, 53 N.Y. Supp. 764; *Seattle v. Goldsmith*, 73 Wash. 54, 131 Pac. 456.

<sup>43</sup>*Griffith v. Connecticut*, 218 U.S. 563.

<sup>44</sup>*Black v. Hirsh*, 256 U.S. 135; *Marcus Brown Holding Co. v. Feldman*, 256 U.S. 170.

<sup>45</sup>*Munn v. Illinois*, 94 U.S. 113.

<sup>46</sup>*Hipolite Egg Co. v. U. S.*, 220 U. S. 45; *McDermott v. Wisconsin*, 228 U. S. 110; *Levy Cases v. U. S.*, 239 U. S. 510.

resulted in acts protecting the public against lawyers, physicians,<sup>47</sup> accountants, undertakers,<sup>48</sup> and practitioners of other trades who do not possess a minimum of competence. A court, zealous for the public interest, has declared that "the several states may impose any requirement they deem proper for the protection of the public against the evils resulting from the incapacity and ignorance of persons engaged in the plumbing business."<sup>49</sup> An eloquent essay could be written from the text, "Sec what unconstitutional things have become constitutional."

#### 345. The Economic Function of the Supreme Court<sup>50</sup>

In our changing society that function is rapidly coming to be an economic one. The great question of public policy which confronts us is to control "the forces" which are shaping our social development. In attempting to master the conditions of our national development the people of the United States are using the government as an agency for the guidance of business and of industry. This control finds expression in legislation passed by the federal and the state governments. Since this legislation is restrictive, it invades the rights of property and abridges the right of contract which is legally a property right. Such invasion may or may not be "without due process of law" and hence contrary to the Fifth or the Fourteenth Amendment. That question depends upon whether it is for "the general welfare" and that turns upon whether in the minds of the justices it is for "the general welfare." Since all social and economic legislation must eventually run the gauntlet of the "due process" clause, the Court must forever be drawing the line between property rights which must be left intact and those which the government may invade in the interests of "the general welfare." In short one of the most important functions of the Court is to fix "the limits of the province of government" in the regulation of business and industry.

### E. THE COURTS AND UNIONISM

#### 346. Reciprocal Nature of Employer's and Employee's Rights<sup>51</sup>

1. The defendants acted within their right when they went out on a strike. Whether with good cause, or without any cause or rea-

<sup>47</sup>*Watson v. Maryland*, 218 U.S. 173; *Collins v. Texas*, 223 U.S. 288.

<sup>48</sup>*Wyeth v. Board of Health of the City of Cambridge*, 200 Mass. 474.

<sup>49</sup>*Douglas v. People*, 225 Ill. 536.

<sup>50</sup>An editorial (1922).

<sup>51</sup>Adapted from the opinion of the court in *Union Pacific Railway Co. v. Ruel*, 120 Fed. 102 (1903).

son, they had the right to quit work, and their reasons for quitting work were reasons they need not give to anyone. And that they all went out in a body, by agreement or preconcerted arrangement, does not militate against them or affect this case in any way.

2. Such rights are reciprocal, and the company had the right to discharge any or all of the defendants, with or without cause, and it cannot be inquired into as to what the cause was.

3. It is immaterial whether the defendants are not now in the service of the company because of a strike or a lockout.

4. The defendants have the right to combine and work together in whatever way they believe will increase their earnings, shorten their hours, lessen their labor, or better their condition, and it is for them, and them only, to say whether they will work by the day or by piecework. All such is part of their liberty. And they can so conclude as individuals, or as organizations, or as unions.

5. And the right is also reciprocal. The railroad company has the right to have its work done by the premium or piece system, without molestation or interference by defendants or others. This is liberty for the company, and the company alone has the right to determine as to the matter.

6. When the defendants went on strike, or when put out on a lockout, their relations with the company were at an end: they were no longer employees of the company; and the places they once occupied in the shops were no longer their places, and never can be again, excepting by mutual agreement between the defendants and the company.

7. No one of the defendants can be compelled by any law, or by any order of any court, to work again for the company on any terms or under any conditions.

8. The company cannot be compelled to employ again any of the defendants, or any other persons, by any law, or by any order of any court, or on any terms, or on any conditions.

9. Each, all, and every of the foregoing matters between the company and the defendants are precisely the same, whether applied to the company or to the defendants.

10. The company has the right to employ others to take the places once filled by defendants; and in employing others the defendants are not to be consulted, and it is of no lawful concern to them, and they can make no lawful complaint by reason thereof. And it makes no difference whether such new employees are citizens of Omaha or of some other city or state.

11. Defendants have the right to argue or discuss with the

new employees the question whether the new employees should work for the company. They have the right to persuade them if they can. But in presenting the matter, they have no right to use force or violence. They have no right to terrorize or intimidate the new employees. The new employees have the right to come and go as they please, without fear or molestation, and without being compelled to discuss this or any other question, and without being guarded or picketed, and persistent and continued and objectionable persuasion by numbers is of itself intimidating, and not allowable.

12. Picketing in proximity to the shops or elsewhere on the streets of the city, if in fact it annoys or intimidates the new employees, is not allowable. The streets are for public use, and the new employee has the same right, neither more nor less, to go back and forth, freely and without molestation and without being harassed by so-called arguments, and without being picketed, as has a defendant or other person. In short, the rights of all parties are one and the same.

#### 347. Unionism and Employment<sup>52</sup>

Included in the right of personal liberty and the right of private property—partaking of the nature of each—is the right to make contracts for the acquisition of property. Chief among such contracts is that of personal employment, by which labor and other services are exchanged for money or other forms of property. If this right be struck down or arbitrarily interfered with, there is substantial impairment of liberty in the long-established constitutional sense. The right is as essential to the laborer as to the capitalist, to the poor as to the rich; for the vast majority of persons have no other honest way to begin to acquire property, save by working for money.

An interference with this liberty so serious as that now under consideration, and so disturbing of equality of right, must be deemed to be arbitrary, unless it be supportable as a reasonable exercise of the police power of the state. But, notwithstanding the strong general presumption in favor of the validity of state laws, we do not think the statute in question, as construed and applied in this case, can be sustained as a legitimate exercise of that power.

<sup>52</sup>Adapted from the opinion of the court in the case of *Coppage v. State of Kansas*, 236 U.S. 1 (1915). A workman was discharged for refusing to sever his connection with a labor organization. A law of the state of Kansas, where the suit originated, forbade employers requiring of employees an agreement not to become or remain members of labor organizations as a condition of securing or retaining employment. The Kansas statute, involved in this case, was declared unconstitutional.

The act, as the construction given to it by the state court shows, is intended to deprive employers of a part of their liberty of contract, to the corresponding advantage of the employed and the unbuilding of the labor organizations. But no attempt is made, or could reasonably be made, to sustain the purpose to strengthen these voluntary organizations any more than other voluntary associations of persons, as a legitimate object for the exercise of the police power. They are not public institutions charged by law with public or governmental duties, such as would render the maintenance of their membership a matter of direct concern to the general welfare. If they were, a different question would be presented.

As to the interest of the employed, it is said by the Kansas Supreme Court to be a matter of common knowledge that "Employees, as a rule, are not financially able to be as independent in making contracts for the sale of their labor as are employers in making a contract of purchase thereof." No doubt, wherever the right of private property exists, there must and will be inequalities of fortune; and thus it naturally happens that parties negotiating about a contract are not equally unhampered by circumstances. This applies to all contracts and not merely to that between employer and employee. Indeed a little reflection will show that wherever the right of private property and the right of free contract coexist, each party when contracting is inevitably more or less influenced by the question whether he has much property, or little, or none; for the contract is made to the very end that each may gain something that he needs or desires more urgently than that which he proposes to give in exchange. And, since it is self-evident that unless all things are held in common, some persons must have more property than others, it is from the nature of things impossible to uphold freedom of contract and the right of private property without at the same time recognizing as legitimate those inequalities of fortune that are the necessary result of the exercise of those rights.

It is said in the opinion of the state court that membership in a labor organization does not necessarily affect a man's duty to his employer; that the employer has no right by virtue of the relation, "to dominate the life nor to interfere with the liberty of the employee in matters that do not lessen or deteriorate the service," and that "the statute implies that labor unions are lawful and not inimical to the rights of employers." The same view is presented in the brief of counsel for the state, where it is said that membership in a labor organization is the "personal and private affair" of the employee. To this line of argument it is sufficient to say that it cannot

be judicially declared that membership in such an organization has no relation to a member's duty to his employer; and therefore, if freedom of contract is to be preserved, the employer must be left at liberty to decide for himself whether such membership by his employee is consistent with the satisfactory performance of the duties of the employment.

Of course we do not intend to say, nor to intimate, anything inconsistent with the right of individuals to join labor unions, nor do we question the legitimacy of such organizations so long as they conform to the laws of the land as others are required to do. Conceding the full right of the individual to join the union, he has no inherent right to do this and still remain in the employ of one who is unwilling to employ a union man, any more than the same individual has the right to join the union without the consent of the organization. Can it be doubted that a labor organization—a voluntary association of workingmen—has the inherent and constitutional right to deny membership to any man who will not agree that during such membership he will not accept or retain employment in company with non-union men? Or that a union man has the constitutional right to decline proffered employment unless the employer will agree not to employ any non-union man?

And can there be one rule of liberty for the labor organization and its members, and a different and more restrictive rule for employers? We think not; and since the relation of employer and employee is a voluntary relation, as clearly as it is between the members of a labor organization, the employer has the same inherent right to prescribe the terms upon which he will consent to the relationship, and to have them fairly understood and expressed in advance.

When a man is called upon to agree not to become or remain a member of the union while working for a particular employer, he is in effect only asked to deal openly and frankly with his employer, so as not to retain the employment upon terms to which the latter is not willing to agree. And the liberty of making contracts does not include a liberty to procure employment from an unwilling employer, or without a fair understanding. Nor may the employer be foreclosed by legislation from exercising the same freedom of choice that is the right of the employee.

To ask a man to agree, in advance, to refrain from affiliation with the union while retaining a certain position of employment, is not to ask him to give up any part of his constitutional freedom. He is free to decline the employment on those terms, just as the employer may decline to offer employment on any other; for "it



takes two to make a bargain." Having accepted employment on those terms, the man is still free to join the union when the period of employment expires; or, if employed at will, then any time upon simply quitting the employment. And if bound by his own agreement to refrain from joining during a stated period of employment, he is in no different situation from that which is necessarily incident to term contracts in general. For constitutional freedom of contract does not mean that a party is to be as free after making a contract as before; he is not free to break it without accountability. Freedom of contract, from the very nature of the thing, can be enjoyed only by being exercised; and each particular exercise of it involves making an engagement which, if fulfilled, prevents for the time any inconsistent course of conduct.

#### 348. The Extension of Unionism<sup>53</sup>

BY LOUIS D. BRANDEIS

Unionizing a shop does not mean inducing employees to become members of the union. It means inducing the employer to enter into a collective agreement with the union governing the relations of the employer to the employees. Unionizing implies, therefore, at least *formal* consent of the employer. But plaintiff and defendants insisted upon exercising the right to secure contracts for a closed shop. The plaintiff sought to secure the *closed non-union* shop through individual agreements with employees. The defendants sought to secure the *closed union shop* through a collective agreement with the union. Since collective bargaining is legal, the fact that the workmen's agreement is made not by individuals directly with the employer, but by the employees with the union and by it, on their behalf, with the employer, is of no significance in this connection. The end being *lawful*, defendant's efforts to unionize the mine can be illegal only if the methods or means pursued were unlawful.

It is urged that a union agreement curtails the liberty of the operator. Every agreement curtails the liberty of those who enter it. The test of legality is not whether an agreement curtails liberty, but whether the parties have agreed upon something which the law pro-

<sup>53</sup>From a dissenting opinion in the case of *Hitchman Coal and Coke Co. v. Mitchell*, 245 U.S. 229. In this Mr. Brandeis was joined by Mr. Holmes and Mr. Clarke. The issues in this case are somewhat involved. But the main issue is clear. The company had an agreement with its men not to join a union while in its employ. The suit is brought by the company to secure an injunction restraining Mitchell and other officers of the United Mine Workers of America from soliciting its employees to join that organization. In a decision made on December 10, 1917, the United States Supreme Court confirmed an injunction to this effect granted by a lower court.

hibits or declares otherwise to be inconsistent with the public welfare. The operator by the union agreement binds himself (1) to employ only members of the union; (2) to negotiate with union officers, instead of with employees individually, the scale of wages and the hours of work; (3) to treat with the duly constituted representatives of the union to settle disputes concerning the discharge of men and other controversies arising out of employment. These are the chief features of a unionizing by which the employer's liberty is curtailed. Each of them is legal. To obtain any of them or all of them men may lawfully strive and even strike. And, if the union may legally strike to obtain each of the things for which the agreement provided, why may it not strike or use equivalent economic pressure to secure an agreement to provide them?

It is also urged that defendants are seeking to "coerce" plaintiff to "unionize" its mine. But coercion, in a legal sense, is not exerted when a union merely endeavors to induce employees to join a union with the intention thereafter to order a strike unless the employer consents to unionize his shop. Such pressure is not coercion in a legal sense. The employer is free either to accept the agreement or the disadvantage. Indeed, the plaintiff's whole case is rested upon agreements secured under similar pressure of economic necessity or disadvantage. If it is coercion to threaten to strike unless plaintiff consents to a closed union shop, it is coercion also to threaten not to give one employment unless the applicant will consent to a closed non-union shop. The employer may sign the union agreement for fear that *labor* may not be otherwise obtainable; the workman may sign the individual agreement for fear that *employment* may not be otherwise obtainable. But such fear does not imply coercion in a legal sense.

In other words, an employer, in order to effectuate the closing of his shop to *union* labor, may exact an agreement to that effect from his employees. The agreement itself being a lawful one, the employer may withhold from the men an economic need—employment—until they assent to make it. Likewise an agreement closing a shop to *non-union* labor being lawful, the union may withhold from an employer an economic need—labor—until he assents to make it. In a legal sense an agreement entered into, under such circumstances, is voluntarily entered into; and as the agreement is in itself legal no reason appears why the general rule that a legal end may be pursued by legal means should not be applied; or, putting it in other words, there is nothing in the character of the agreement which should make *unlawful* means used to attain it, which in other connections are recognized as *lawful*.

349. The Boycott and Restraint of Trade<sup>54</sup>

Complainant conducts its business on the "open shop" policy, without discrimination against either union or non-union men. The individual defendants and the local organizations of which they are the representatives are affiliated with the International Association of Machinists, an unincorporated association having a membership of more than 60,000; and are united in a combination, to which the International Association also is a party, having the object of compelling complainant to unionize its factory and enforce the "closed shop," the eight-hour day, and the union scale of wages, by means of interfering with and restraining its interstate trade in the products of the factory. Complainant's principal manufacture is newspaper presses of large size and complicated mechanism, varying in weight from 10,000 to 100,000 pounds, and requiring a considerable force of labor and a considerable expenditure of time—a week or more—to handle, haul, and erect them at the point of delivery.

These presses are sold throughout the United States and in foreign countries; and, as they are especially designed for the production of daily papers, there is a large market for them in and about the city of New York. They are delivered there in the ordinary course of interstate commerce, the handling, hauling, and installation work at destination being done by employees of the purchaser under the supervision of a specially skilled machinist supplied by complainant. The acts complained of and sought to be restrained have nothing to do with the conduct or management of the factory in Michigan, but solely with the installation and operation of the presses by complainant's customers. None of the defendants is or ever was an employee of complainant, and complainant at no time has had relations with either of the organizations that they represent. The acts complained of made up the details of an elaborate program adopted and carried out by defendants and their organizations in and about the city of New York as part of a country-wide program adopted by the International Association for the purpose of enforcing a boycott of complainant's product. The acts embraced the following, with others: warning customers that it would be better for them not to purchase, or having purchased not to instal, presses made by complainant, and threatening them with loss should they do so; threatening customers with sympa-

<sup>54</sup>Adapted from the opinion of the U. S. Supreme Court in the case of *Duplex Printing Press Company v. Deering*, 254 U.S. 243. This opinion by Mr. Justice Pitney and the dissenting opinion by Mr. Justice Brandeis which follows present a striking contrast between the approaches of the justices. Together they present excellent illustrations of the statements by Mr. Justice Cardozo given above. It is of note that the very facts are differently recorded by the two justices.

thetic strikes in other trades; notifying a trucking company usually employed by customers to haul the presses not to do so, and threatening it with trouble if it should; inciting employees of the trucking company, and other men employed by customers of complainant, to strike against their respective employers in order to interfere with the hauling and installation of presses, and thus bring pressure to bear upon the customers; notifying repair shops not to do repair work on Duplex presses; coercing union men by threatening them with loss of union cards and with being blacklisted as "scabs" if they assisted in installing the presses; threatening an exposition company with a strike if it permitted complainant's presses to be exhibited; and resorting to a variety of other modes of preventing the sale of presses of complainant's manufacture in or about New York City, and delivery of them in interstate commerce, such as injuring and threatening to injure complainant's customers and prospective customers, and persons concerned in hauling, handling, or installing the presses.

All the judges of the Circuit Court of Appeals concurred in the view that defendants' conduct consisted essentially of efforts to render it impossible for complainant to carry on any commerce in printing presses between Michigan and New York. The interference with interstate commerce was such as ought to be enjoined, unless the Clayton Act of October 15, 1914, forbade such injunction.

The Clayton Act, in Section 1, includes the Sherman Act in a definition of "anti-trust laws," and, in Section 16 (38 Stat. 737), gives to private parties a right to relief by injunction in any court of the United States against threatened loss or damage by a violation of the anti-trust laws, under the conditions and principles regulating the granting of such relief by courts of equity.

That complainant's business of manufacturing printing presses and disposing of them in commerce is a property right, entitled to protection against unlawful injury or interference; that unrestrained access to the channels of interstate commerce is necessary for the successful conduct of the business; that a widespread combination exists, to which defendants and the associations represented by them are parties, to hinder and obstruct complainant's interstate trade and commerce by the means that have been indicated; and that as a result of it complainant has sustained substantial damage to its interstate trade, and is threatened with further and irreparable loss and damage in the future; is proved by clear and undisputed evidence. Hence the right to an injunction is clear if the threatened loss is due to a violation of the Sherman Act as amended by the Clayton Act.

Looking first to the former act, the thing declared illegal by its first section is "Every contract, combination in the form of trust or

otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations." The accepted definition of a conspiracy is a combination of two or more persons by concerted action to accomplish a criminal or unlawful purpose, or to accomplish some purpose not in itself criminal or unlawful by criminal or unlawful means. If the purpose be unlawful it may not be carried out even by means that otherwise would be legal; and although the purpose be lawful it may not be carried out by criminal or unlawful means.

The substance of the matters here complained of is an interference with complainant's interstate trade, intended to have coercive effect upon complainant and produced by what is commonly known as a "secondary boycott," that is, a combination not merely to refrain from dealing with complainant, or to advise or by peaceful means persuade complainant's customers to refrain ("primary boycott"), but to exercise coercive pressure upon such customers, actual or prospective, in order to cause them to withhold or withdraw patronage from complainant through fear of loss or damage to themselves should they deal with it.

It is settled that such a restraint produced by peaceable persuasion is as much within the prohibition as one accomplished by force or threats of force; and it is not to be justified by the fact that the participants in the combination or conspiracy may have some object beneficial to themselves or their associates which possibly they might have been at liberty to pursue in the absence of the statute.

Upon the question whether the provisions of the Clayton Act forbade the grant of an injunction under the circumstances of the present case, the Circuit Court of Appeals was divided; the majority holding that under Section 20, "perhaps in conjunction with Section 6," there could be no injunction. As to Section 6, it seems to us its principal importance in this discussion is for what it does not authorize, and for the limit it sets to the immunity conferred. The section assumes the normal objects of a labor organization to be legitimate, and declares that nothing in the anti-trust laws shall be construed to forbid the existence and operation of such organizations or to forbid their members from lawfully carrying out their legitimate objects; and that such an organization shall not be held in itself—merely because of its existence and operation—to be an illegal combination or conspiracy in restraint of trade. But there is nothing in the section to exempt such an organization or its members from accountability where it or they depart from its normal and legitimate objects and engage in an actual combination or conspiracy in restraint of trade. And by no fair or permissible construction can it be taken as authorizing any activity otherwise unlawful, or enabling a normally lawful organization to be-

come a cloak for an illegal combination or conspiracy in restraint of trade as defined by the anti-trust laws.

The majority of the Circuit Court of Appeals appear to have entertained the view that the words "employers and employees," as used in Section 20, should be treated as referring to "the business class or clan to which the parties litigant respectively belong"; and that, as there had been a dispute at complainant's factory in Michigan concerning the conditions of employment there—a dispute created, it is said, if it did not exist before, by the act of the Machinists' Union in calling a strike at the factory—Section 20 operated to permit members of the Machinists' Union elsewhere—some 60,000 in number—although standing in no relation of employment under complainant, past, present, or prospective, to make that dispute their own and proceed to instigate sympathetic strikes, picketing, and boycotting against employers wholly unconnected with complainant's factory and having relations with complainant only in the way of purchasing its product in the ordinary course of interstate commerce—and this where there was no dispute between such employers and their employees respecting terms or conditions of employment.

We deem this construction altogether inadmissible. Congress had in mind particular industrial controversies, not a general class war. "Terms or conditions of employment" are the only grounds of dispute recognized as adequate to bring into play the exemptions; and it would do violence to the guarded language employed were the exemption extended beyond the parties affected in a proximate and substantial, not merely a sentimental or sympathetic, sense by the cause of dispute. Nor can Section 20 be regarded as bringing in all members of a labor organization as parties to a "dispute concerning terms or conditions of employment" which proximately affects only a few of them, with the result of conferring upon any and all members—no matter how many thousands there may be, nor how remote from the actual conflict—those exemptions with Congress in terms conferred only upon parties to the dispute.

### 350. The Boycott and Labor Standards<sup>55</sup>

BY LOUIS D. BRANDEIS

The Duplex Company, a manufacturer of newspaper printing presses, seeks to enjoin officials of the machinists' and affiliated unions from interfering with its business by inducing their members not to work for plaintiff or its customers in connection with the setting up

<sup>55</sup>*Duplex Printing Press Company v. Deering*, 254 U. S. 479 (1921). Mr. Justice Holmes and Mr. Justice Clarke concur with Mr. Justice Brandeis in this dissent.

of presses made by it. Unlike *Hitchman Coal & Coke Co. v. Mitchell*, 245 U.S. 229, there is here no charge that defendants are inducing employees to break their contracts. Nor is it now urged that defendants threaten acts of violence. But plaintiff insists that the acts complained of violate both the common law of New York and the Sherman Act and that, accordingly, it is entitled to relief by injunction under the state law and under Section 16 of the Clayton Act.

The defendants admit interference with plaintiff's business but justify it on the following ground: "There are in the United States only four manufacturers of such presses; and they are in active competition. Between 1909 and 1913 the machinists' union induced three of them to organize and deal with the union, to grant the eight-hour day, to establish a minimum wage scale, and to comply with other union requirements. The fourth, the Duplex Company, refused to recognize the union; insisted upon conducting its factory on the open-shop principle; refused to introduce the eight-hour day and operated, for the most part, ten hours a day; refused to establish a minimum wage scale; and disregarded other union standards. Thereupon two of the three manufacturers who had assented to union conditions notified the union that they should be obliged to terminate their agreements with it unless their competitor, the Duplex Company, also entered into the agreement with the union, which, in giving more favorable terms to labor, imposed correspondingly greater burdens upon the employer. Because the Duplex Company refused to enter into such an agreement and in order to induce it to do so, the machinists' union declared a strike at its factory, and in aid of that strike instructed its members and the members of affiliated unions not to work on the installation of presses which plaintiff had delivered in New York. Defendants insist that by the common law of New York where the acts complained of were done, and where this suit was brought, and also by Section 20 of the Clayton Act, the facts constitute a justification for this interference with plaintiff's business.

*First.*—As to the rights at common law: Defendants' justification is that of self-interest. They have supported the strike at the employer's factory by a strike elsewhere against its product. They have injured the plaintiff, not maliciously, but in self-defense. They contend that the Duplex Company's refusal to deal with the machinists' union and to observe its standards threatened the interest not only of such union members as were its factory employees, but even more of all members of the several affiliated unions employed by plaintiff's competitors and by others whose more advanced standards the plaintiff was, in reality, attacking; and that none of the defendants and no person whom they are endeavoring to induce to refrain from

working in connection with the setting up of presses made by plaintiff is an outsider, an interloper. In other words, that the contest between the company and the machinists' union involves vitally the interest of every person whose co-operation is sought. May not all with a common interest join in refusing to expend their labor upon articles whose very production constitutes an attack upon their standard of living and the institution which they are convinced supports it? Applying common-law principles the answer should, in my opinion, be: "Yes, if as matter of fact those who so co-operate have a common interest."

The change in the law by which strikes once illegal and even criminal are now recognized as lawful was effected in America largely without the intervention of legislation. This reversal of a common-law rule was not due to the rejection by the courts of one principle and the adoption in its stead of another, but to a better realization of the facts of industrial life. It is conceded that, although the strike of the workmen in plaintiff's factory injured its business, the strike was not an actionable wrong; because the obvious self-interest of the strikers constituted a justification.

Formerly courts held that self-interest could not be so served. But even after strikes to raise wages or reduce hours were held to be legal because of the self-interest, some courts held that there was not sufficient causal relationship between a strike to unionize a shop and the self-interest of the strikers to justify injuries inflicted. But other courts, repeating the same legal formula, found that there was justification, because they viewed the facts differently. When centralization in the control of business brought its corresponding centralization in the organization of workingmen, new facts had to be appraised. A single employer might, as in this case, threaten the standing of the whole organization and the standards of all its members; and when he did so the union, in order to protect itself, would naturally refuse to work on his materials wherever found. When such a situation was first presented to the courts, judges concluded that the intervention of the purchaser of the materials established an insulation through which the direct relationship of the employer and the workingmen did not penetrate; and the strike against the material was considered a strike against the purchaser by unaffected third parties. But other courts, with better appreciation of the facts of industry, recognized the unity of interest throughout the union, and that, in refusing to work on materials which threatened it, the union was only refusing to aid in destroying itself.

So, in the case at bar; deciding a question of fact upon the evidence introduced and matters of common knowledge, I should say, as



the two lower courts apparently have said, that the defendants and those from whom they sought co-operation have a common interest which the plaintiff threatened.

*Second.*—As to the anti-trust laws of the United States: The Clayton Act was the fruit of unceasing agitation, which extended over more than twenty years and was designed to equalize before the law the position of workingmen and employer as industrial combatants. Aside from the use of the injunction, the chief source of dissatisfaction with the existing law lay in the doctrine of malicious combination, and, in many parts of the country, in the judicial declarations of the illegality at common law of picketing and persuading others to leave work. The grounds for objection to the latter are obvious. The objection to the doctrine of malicious combinations requires some explanation. By virtue of that doctrine, damage resulting from conduct such as striking or withholding patronage, or persuading others to do either, which without more might be *damnum absque injuria* because the result of trade competition, became actionable when done for a purpose which a judge considered socially or economically harmful and therefore branded as malicious and unlawful. It was objected that, due largely to environment, the social and economic ideas of judges, which thus became translated into law, were prejudicial to a position of equality between workingman and employer; that due to this dependence upon the individual opinion of judges, great confusion existed as to what purposes were lawful and what unlawful; and that in any event Congress, not the judges, was the body which should declare what public policy in regard to the industrial struggle demands.

By 1914 the ideas of the advocates of legislation had fairly crystallized upon the manner in which the inequality and uncertainty of the law should be removed. The resulting law set out certain acts which had previously been held unlawful, whenever courts had disapproved of the ends for which they were performed; it then declared that, when these acts were committed in the course of an industrial dispute, they should not be held to violate any law of the United States. In other words, the Clayton Act substituted the opinion of Congress as to the propriety of the purpose for that of differing judges; and thereby it declared that the relations between employers of labor and workingmen were competitive relations, that organized competition was not harmful and that it justified injuries necessarily inflicted in its course.

The Duplex Company contends that Section 20 of the Clayton Act does not apply to the case at bar, because it is restricted to cases "between an employer and employees, or between employers and em-

ployees, or between employees, or between persons employed and persons seeking employment, involving, or growing out of, a dispute concerning terms or conditions of employment"; whereas the case at bar arises between an employer in Michigan and workingmen in New York not in its employ, and does not involve their conditions of employment. But Congress did not restrict the provision to employers and workingmen in their employ. By including "employers and employees" and "persons employed and persons seeking employment" it showed that it was not aiming merely at a legal relationship between a specific employer and his employees. Furthermore, the plaintiff's contention proves too much. If the words are to receive a strict technical construction, the statute will have no application to disputes between employers of labor and workingmen, since the very acts to which it applies sever the continuity of the legal relationship. The further contention that this case is not one arising out of a dispute concerning the conditions of work of one of the parties is, in my opinion, founded upon a misconception of the facts.

Because I have come to the conclusion that both the common law of a state and a statute of the United States declare the right of industrial combatants to push their struggle to the limits of the justification of self-interest, I do not wish to be understood as attaching any constitutional or moral sanction to that right. All rights are derived from the purposes of the society in which they exist; above all rights rises duty to the community. The conditions developed in industry may be such that those engaged in it cannot continue their struggle without danger to the community. But it is not for judges to determine whether such conditions exist, nor is it their function to set the limits of permissible contest and to declare the duties which the new situation demands. This is the function of the legislature which, while limiting individual and group rights of aggression and defense, may substitute processes of justice for the more primitive method of trial by combat.

### XIII

## CONTROL AND TAXATION

It is not surprising that with the passing of *laissez-faire* and the assumption of a larger area of control by the state, there should arise fresh interest in the problems of taxation. A society using means of control as varied as ours could not overlook so facile an instrument. Nor could it long ignore the vital fact that its new social responsibilities require increased expenditures, and that the field of taxation must be newly explored to discover sources of additional revenue.

More than one generation of economists has fought over the question of whether taxation should be used as an instrument of social control. The advocates of "taxes for revenue only" have usually seriously routed their opponents, chiefly because of the nicety with which their fiscal theories have harmonized with general intellectual theories established upon an individualistic basis. But the advocates of taxes as means of control have quite as seriously triumphed over their opponents in determining usual practices. The small town vindicates its belief in mercantilism by taxing the out-of-town peddler; tax assessors very conveniently under-assess, or fail to assess, the property of industries which their districts are anxious to "encourage"; the state attempts to shape its tax laws in such a way as to invite investment from other states; public sentiment demands a high excise duty on intoxicants as a means of decreasing their consumption; and the nation legislates "prosperity" by rapid and skillful manipulation of customs duties. There is nothing novel in even the advocacy of the single tax as a means of correcting distribution, encouraging production, and eliminating social evils. And when we remember that a tax on commodities will decrease consumption, and are confronted by such an instance as a tax on distilleries causing a rapid development of technique, it is evident that we could not escape using this vehicle in programs of social control, even if we would.

But whether or not the system of taxation is to be used to effect changes in social life and institutions, a rational use of the machinery of taxation must be based upon adequate knowledge. This includes, first of all, a clear idea of the classes or properties which we wish to bear the assessed taxes, and why we wish to put the burdens upon them. We must, in short, have principles or "canons" of taxation. In the second place, we must know the machinery of taxation well enough to know just how to reach the desired objects, assuming that they are not beyond reach. Taxes, you know, have a disagreeable habit of getting "shifted"; and quite frequently their "incidence" falls upon those whom we had no intention of burdening. If we are taking thought for the morrow, and are concerned with increased efficiency of production and "equity" in distribution, we must pay particular attention to the incidence of taxes on the factors of production. In the third place, the consequences of taxation are not confined to shifting; taxes produce other effects than those evidenced by price changes. Such social consequences as business failures, greater concentration in industry, changes in technique, and relocation of industries must be as accurately anticipated as possible.

Today our concern is not so much with the use of taxation as a means of social control as of adjusting the system to the present industrial situation and of making it yield larger and larger revenues. The first of these is requiring an abandonment of the general property tax. This time-honored fiscal institution was admirably adapted to rural and handicraft communities; but it seems unable to reconcile itself with the varied forms of property which

Modern Industrialism has produced. The older methods of assessment are also inadequate. Small industrial units, organized as individual businesses, could justly be assessed by county or local officials. The property of huge corporations, lying in many counties or states, and much more valuable as entities than the aggregate of material properties would indicate, demands a more centralized system of assessment. It is evident, too, that to treat individuals alike is not to give them equal treatment. The old principle of assessment at a uniform rate, found in so many of our state constitutions, is an inheritance from the eighteenth century. The system, in short, must be made to conform to the newer concepts in which modern industrial life is expressed.

But of greater importance is the increasing demand for revenue. We are being called upon to extend our educational system; to furnish to the people opportunities for recreation, amusement, and cultural development; to lighten the burden of economic insecurity; to perfect an adequate mechanism of social control. These demands are constantly becoming more imperative. To meet them our scheme of taxes must be reconstructed. Customs duties and excise taxes are likely to be retained because of the ease of their collection. The income tax, so closely in harmony with modern concepts of pecuniary property, is likely to grow in favor. The corporations are by no means immune from taxation with increasing severity. Increased volume of business, operation in "a stage of increasing returns," and lack of imperative demand for the lowering of prices together create an ideal condition for an increase in such taxes. But perhaps greater and greater dependence will be put in the inheritance tax. The yield from both this and from the income tax is likely to be greatly increased through "graduation."

The use of such taxes, in addition to raising revenue, will involve profound social changes. Inheritance and property will become institutions quite different from those we have known. Wealth will be distributed in quite a different way. The forces making for social development will be different in content and in arrangement. Primarily designed as revenue-producers, these taxes will be none the less effective instruments in transforming our institutions.

## A. THE INDIVIDUALISTIC THEORY

### 351. The Roots of the Theory<sup>1</sup>

BY WILLIAM KENNEDY

The social attitude of the eighteenth century was not based upon one political theory, but it was nevertheless based predominantly on one political theory. This was the "freeholder," non-functional conception of society. Men entered into society in order to secure themselves in the rights which individually belonged to them; the state existed to provide this security; the rights to be secured were theoretically "natural" rights, in practice conceived as the more general and characteristic rights guaranteed by English law; and all men having rights to be protected which, though different in extent, were essentially similar in kind, every man was a free man and a citizen. The basis of political obligation was that the state was necessary to, and in effect did, protect men's rights. Men were born not to functions

<sup>1</sup>Adapted from *English Taxation, 1640-1799: An Essay on Policy and Opinion*, pp 180 ff. Copyright by G. Bell & Sons, 1913.

or services, but to rights and enjoyments. They were born freeholders or free merchant adventurers.

The more abstract political speculation of the century illustrates very clearly the predominance of this conception of society. On the one hand it was put forward in strict Lockian form by Blackstone. In his *Commentaries* he explains that the individual possessed some "absolute" rights—chiefly those of personal security, personal liberty, and private property—which appertained to him merely as an individual, independently of his membership in society; but that no absolute duties pertained to the individual (at least such as law could explain and enforce)—all duties were relative only, and that "the principal aim of society is to protect individuals in the enjoyment of those absolute rights which were vested in them by the immutable laws of nature." Blackstone's essential justification for the existence of a propertied aristocracy, had he thought it necessary to discuss such a question, would therefore have been that they had natural or absolute rights to property like other people, and not that they governed England or did anything in particular for anyone or anything but themselves.

On the other hand, the freeholder conception was equally involved in the speculation of those who, prior to Bentham, attempted to add to Locke's theory a vague utilitarian explanation of rights, such as that the right of private property is beneficial in society. This was the position of the philosophers Hutcheson and Hume, the economists Adam Smith and Sir James Steuart, and the whig lawyer Sir James Mackintosh. These thinkers had no idea of a connection between rights and functions. Adam Smith, for instance, discussed the causes of the subordination of the classes in society, and all he saw was, first, that birth and fortune seemed to be the two circumstances which principally set one man over another; and, second, that the reason for subordination seemed to lie in the need for the defense of great private properties. The sixteenth-century theorist would have said that subordination and great properties existed so that the subordinate classes might be well governed.

Finally the freeholder conception dominated the feeling of those who were led, by the implications which the French Revolution emphasized in Lockian ideas, to repudiate the doctrine of natural rights, and with Burke to canonize the actual property and other rights which tradition had sanctified in England. Even Burke, in spite of his splendid inconsistencies, did not succeed in any direct way in embodying ideas of function in his defense of the English social order. He made men feel the complex and organic and traditional character of a real society, but he advanced very little in comprehension of the structure of its organism.

Now it follows directly on this conception of society as held together by the protection of individual rights, that all men, rich and poor, should pay taxes, that is, share in the cost of the protecting organization. The logical alternative, as Burke said, was loss of citizenship. This was the doctrine which underlay even the sentiment in favor of exempting the poor from taxation. This view was not a functional one which demanded public service of the individual.

No political theory could have had such widespread influence upon public opinion as the freeholder theory had in the eighteenth century, except by representing some real and important aspect of the state of contemporary society. And the freeholder theory did represent such an aspect—namely, the fact that the rights which the governing class in particular possessed were rights attaching not to an office but to ownership of property. They received incomes whether or not they performed services in return. But the theory also misrepresented the state of society, for it treated this legal meaning of the right of property as its whole significance. The theory ignored the fact that the governing class did perform services in society, and that it was not composed merely of "idle rich consumers."

This other aspect of English society was represented by the second but much less important political theory which influenced the social attitude of the eighteenth century. It was the theory of class duty and of the mutual dependence of classes, and was expressed in general terms by all kinds of men, but was voiced chiefly by the Church, which at all times insisted upon a functional theory which treated rights not as their own justification but as the conditions of duties.

### 352. Canons of Taxation<sup>2</sup>

BY ADAM SMITH

It is necessary to premise the four following maxims with regard to taxes in general:

I. The subjects of every state ought to contribute toward the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state. The expense of government to the individuals of a great nation, is like the expense of management to the joint tenants of a great estate, who are all obliged to contribute in proportion to their respective interests in the estate. In the observation or neglect of this maximum consists, what is called, the equality or inequality of taxation.

II. The tax which each individual is bound to pay ought to be certain, and not arbitrary. The time of payment, the manner of

<sup>2</sup>Adapted from *The Wealth of Nations* (1776), Book V, Part II, chap. ii.

payment, the quantity to be paid, ought all to be clear and plain to the contributor, and to every other person. The certainty of what each individual ought to pay is, in taxation, a matter of so great importance that a very considerable degree of inequality, it appears, I believe, from the experience of all nations, is not nearly so great an evil as a very small degree of uncertainty.

III. Every tax ought to be levied at the time, or in the manner, in which it is most likely to be convenient for the contributor to pay it. A tax upon the rent of land or of houses, payable at the same term at which such rents are usually paid, is levied at the time when it is most likely to be convenient for the contributor to pay; or when he is most likely to have wherewithal to pay. Taxes upon such consumable goods as are articles of luxury are all finally paid by the consumer, and generally in a manner that is very convenient for him. He pays them by little and little, as he has occasion to buy the goods. As he is at liberty too, either to buy, or not to buy, as he pleases, it must be his own fault if he ever suffers any considerable inconvenience from such taxes.

IV. Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury of the state.

### 353. The Burden of Taxation<sup>3</sup>

BY S. J. CHAPMAN

As regards taxation, the first thing to settle is the principle according to which its burden should be distributed. It is commonly agreed at the present time that taxation should be designed so as to cause *equal proportional sacrifice among the taxpayers*. When there is equality of proportional sacrifice, people are left in the same relative positions after being taxed as before.

This principle has been called the *principle of equality of sacrifice*. It is better, however, to call it the *principle of proportional sacrifice*, because equality of sacrifice might be interpreted to mean equality of absolute sacrifice and not of proportional sacrifice. If the utility of income were constant and the same for all—as it is not—and a man with £1,000 a year and a man with £500 a year contributed £10 a year each in taxes, equal amounts of sacrifice would be entailed, but the man with £500 would be involved in a greater proportional sacrifice. The proportional sacrifice of the man with £500 a year would be the same as that made by a man with £1,000 a year

<sup>3</sup>Adapted from *Outlines of Political Economy*, pp. 376-79. Copyright by Longmans, Green & Co., 1911.

who paid £10 in taxes, if the former paid not £10 but £5, on the assumptions made as regards the utility of income.

It is repeatedly affirmed that the right theory of taxation is the *faculty theory*. Generally speaking, the faculty theory lays it down that a person should pay taxes in proportion to his power to do so. Whether the faculty theory is the correct theory or not, according to the consensus of expert opinion, depends upon the exact meaning that we read into it. Let us take an example from a primitive community. The state needs a particular piece of work to be done. Then, some say, for the whole community to turn out to do the work, and for each person to work according to his strength would be for each to contribute to the service of the state according to faculty. But would this be the equitable thing? If all worked ten days, the man of great capacity would be doing absolutely more for the state than the man of little capacity. But the latter would be making a greater proportional sacrifice than the former. He would be doing so because the man of great capacity, who could make much in a year, in yielding up ten days of his time would be surrendering comparative superfluities, whereas the man of little capacity in yielding up ten days of his time would be surrendering comparative necessities. The force of this argument will be more fully appreciated when it is put in terms of money. Equal sacrifices of time are equivalent to proportional sacrifices of money income, but proportional sacrifices of money income are not equivalent to proportional sacrifices of real income, that is of the utility of income, which is the thing that ultimately counts. However, the faculty theory may be interpreted in such a way as to be made identical with the theory of proportional sacrifice.

The so-called *ability theory* is either the *faculty theory* in the form first analyzed above, or the theory of proportional sacrifice. If we mean by any theory that proportional sacrifice alone is equitable, it is best to call it the "theory of proportional sacrifice" so as to prevent any misunderstanding.

Taxation which embodies the principle of proportional sacrifice must be *progressive*. By the principle of progression is meant in general that the higher the *clear net income* of a person the greater must be the *rate* at which he is taxed. The need of progression is derived from the known facts as regards the variation of the utility of income with its amount. In view of the rate at which the marginal utility of income falls, it is practically certain that taxation proportional to income exacts a greater proportional sacrifice from the poorer of any two persons, other things being equal.

The great obstructions in the way of applying the principle of



progression with scientific accuracy are (1) that utility varies with income differently for different persons, and even for the same person at different times, and (2) that the variations of utility with income cannot be accurately measured.

## B. THE LAG IN TAX POLICY

### 354. Defects of the General Property Tax<sup>4</sup>

There are two reasons why the general property tax has failed in operation: First, because under modern conditions it cannot be enforced effectively; secondly, because of a more or less conscious recognition of the fact that strict enforcement would result in a still greater injustice than now prevails.

The practical difficulties in the way of enforcing the general property tax are well known. Under modern conditions much property that is valuable to its individual owner is in a form that permits of easy evasion. The paper evidences of the ownership of property which the general property tax system seeks to reach in the hands of the owner can readily be concealed, or there can be a colorable transfer of title. Credits and debts can be juggled. Visible personal property can be temporarily transferred into another district or state. Where the taxpayer makes his own return, he can undervalue or omit some of his property. If the assessor tries to inventory the property, he may overlook much of it and fail to estimate the value of that which he does find.

Then there is the ever present feeling which exerts a conscious or unconscious influence with the average administrator, that he drives away productive capital by the strict enforcement of laws which hinder the business interests of his community in competition with those in localities where greater "leniency" is shown.

Public opinion almost invariably recognizes the unfairness of taxing all property by the same rule and at the same rate, whenever a strict enforcement of the law is attempted. The abstract demand for the taxation of all property alike then gives place to concrete indignation over the actual results. It is always some unknown "they" who ought to be made to pay on everything "they" own. But the property which the assessor does find often is, in the opinion of its owners, either greatly overvalued, or has been "singled out," or is otherwise quite improperly on the rolls. This attitude of the average property-owner is an unconscious resentment at the unfairness

<sup>4</sup>Adapted from "Report of Committee on Causes of Failure of General Property Tax," *State and Local Taxation, Fourth International Conference*, pp. 307-10. Copyright by National Tax Association, 1910.

of the general property tax theory. The attempt to tax all property at a uniform standard of valuation and at the same rate, regardless of its special characteristics, earning power, or the benefits derived from the expenditures of government, violates the primary rules of just taxation and offends the natural sense of justice.

The two theories of taxation most widely accepted by economists are: One, that each individual should be taxed in proportion to his ability to pay; the other, that taxes should be levied in proportion to benefits or privileges received from government. However the advocates of either theory may differ, they will agree that at least taxation should conform to one of these two theories in order to approach fairness. The general property tax conforms to neither. It establishes an arbitrary measure for taxation that bears no relation either to ability to pay or to benefits received.

Apart from these theoretical objections, there is a practical injustice inseparable from strict enforcement. The fact that the real estate tax has been enforced regularly has led to an amortization of the average tax. The rental received from real estate is gross; therefore the purchaser deducts the tax and finds the net income before he purchases, thus securing for his investment the current rate of return, tax-free. The investor in securities usually pays a purchase price which is fixed in a country-wide market, and is calculated on the assumption that the investment will escape taxation, and that his whole income will therefore be net. When by spasmodic enforcement of the law, or disclosure of personality in a probate court, securities that bear, say, 4 per cent interest are made subject to a 2 or 3 per cent tax on their market or face value, the moral sense revolts at this practical confiscation of so large a share of the income.

In the case of tangible property such as merchandise, the results of general evasion are similar. Selling prices are fixed on the assumption that the business will largely, if not wholly, escape taxation. The few merchants who are caught find themselves taxed out of all proportion to others, and are unable to recoup themselves for the tax by adding to prices, because of the competition with those who escape, or with non-residents—who may be wholly relieved from such liability in their own states.

To sum up, your committee finds:

That the general property tax system has broken down.

That it has not been more successful under strict administration than where the administration is lax.

That in the states where its administration has been the most stringent, the tendency of public opinion and legislation is not toward

still more stringent administration, but toward a modification of the system.

That the same tendency is evident in the states where administration has been more lax.

That the states which have modified or abandoned the general property tax show no intention of returning to it.

That in the states where the general property tax is required by constitutional provisions, there is a growing demand for the repeal of such provisions.

We conclude, therefore, that the failure of the general property tax is due to the inherent defects of the theory; that even measurably fair and effective administration is unattainable; and that all attempts to strengthen such administration serve simply to accentuate and to prolong the inequalities and unjust operation of the system.

### 355. Multiple Taxation<sup>5</sup>

BY THEODORE SUTRO

No one doubts the fact of double and multiple taxation in our system, but nevertheless it will be useful to point out some concrete examples.

Certain logs, cut on lands in Wisconsin owned by a Minnesota corporation, were hauled to a river and piled on the ice to await the opening of the river, that they might be floated down to Minnesota to be there manufactured into lumber. Under a statute of Wisconsin these logs were assessed in the month of April for taxation for the year commencing on the last Monday in June, on the claim that the *situs* of the logs was in Wisconsin. It appears that under a law of the state of Minnesota the same logs were also assessed against the Minnesota corporation, and taxed there for part or all of the same period. The Wisconsin court admitted that this would result in double taxation of the same article in the same year and said: "Either it is lawful to tax the logs in Wisconsin or it is not. If lawful at all, the mere circumstance that the owner, after the tax is levied, voluntarily takes them into another state, where they are also taxed, can have nothing to do with the question of the constitutionality of the tax here."

Here is a flagrant case of double taxation, but we may go farther. Let us assume that the Minnesota corporation had a permanently established agency in the city of New York, and that it sent these logs, subsequent to their taxation both in the states of Minnesota and

<sup>5</sup>Adapted from "Double and Multiple Taxation," *State and Local Taxation, Second International Conference*, pp. 548-52. Copyright by National Tax Association, 1909.

Wisconsin, to the city of New York, where they would arrive before the tax period of Wisconsin and Minnesota had expired, and would, within that period, reach and be in the city of New York on the subsequent second Monday of January. They would thereupon become taxable for the third time in the city of New York.

Let us assume further that subsequently, say in the month of March, they were sawed into lumber in the state of New York, and were in or about the month of April shipped to another agency of the same Minnesota corporation, in the state of New Jersey, and that this lumber was in the hands of the New Jersey agency on the twentieth day of May, on which date assessments for taxation are made in that state.

We should then have this result that these logs were assessed in Wisconsin for the whole period of one year from the last Monday of June, for nearly the whole of that period also in the state of Minnesota, from the period from at least the second Monday in January until the last Monday of June also in New York, and from the period from the twentieth of May until the last Monday of June in New Jersey.

On the other hand, a competing Wisconsin corporation or individual growing and cutting these logs into lumber in that state and disposing of this lumber before the expiration of a year from the last Monday of June would have been taxed for the logs or their equivalent in lumber only a single time for the same tax period, for which the Minnesota corporation would have been taxed four times.

Certain mortgages on lands in Oregon held by a California corporation were taxed in Oregon, under an Oregon statute, which provided that "mortgages of land shall for the purpose of assessment and taxation be deemed to be real estate." Under the laws of California the same mortgages were taxable against the California corporation for a part of the same period. This illustration also we might carry farther by assuming that before the tax period in California had expired the mortgages had been assigned by the California corporation to a resident of New York City. If held by that resident on the second Monday of January in the city of New York, the same mortgages would have been subject to another tax for the same tax period.

Money had been loaned by a resident of Kentucky to a firm in Ohio. It was taxed in both states. The court said: "Borrowed capital in Ohio is taxable as the borrower's property there, and the debt due to the lender in Kentucky is taxable here as her property" (i.e., the property of the minor daughter of the deceased lender.) "In this case, the ward's right to the money in Ohio is a portion of the

wealth of Kentucky, and ought to contribute to the burdens of the government which protects her; and if it could escape contribution by lending it in Ohio, a knowledge of that fact would encourage the exhaustive deportation of the money of Kentucky to augment the wealth of some other state."

### 356. Democracy and Taxation<sup>6</sup>

BY W. F. GEPIHART

The foundations for our present tax system were laid in the early days of this Republic when economic and social conditions were very different from what they are today. At the close of the eighteenth century, wealth consisted primarily of tangible property, such as land, buildings, live stock, plant, and equipment, and such other forms as could not easily be concealed. It was under economic conditions such as these that we laid the basis of our taxation system, especially that of the state and municipalities.

The old general property tax has been, and still is, the foundation-stone of the tax system in most of our states. Industrial development in the nineteenth century was very rapid and many new intangible forms of wealth came into being, which produced many inconsistencies and inequalities in our system of taxation. The results of these changes have been far-reaching. It has enabled many forms of wealth to escape taxation and has freed large groups of the population from any form of direct taxation.

This does not mean that the masses completely escape a share of the tax burden, but rather that they do not pay it directly, and, consequently, take but little interest in the tax rate levied upon forms of wealth which they do not possess. The result has been that their demands have not been tempered, as they might otherwise have been, had increases in taxation, resulting from enlarged public expenditures, been directly and equitably chargeable to them.

The growth of the modern industrial city, with the failure to devise proper systems of taxation and the lack of control over public expenditures, has been responsible for the situation today, where those who can determine not only the character, kind, and amount of public expenditures can also largely avoid bearing directly a just proportion of the cost. This growth of the modern city has been rapid, and the conditions governing urban life, industrially and socially, have created a large number of non-property-holding voters. This large propertyless class is the possessor of political control, and

<sup>6</sup>Adapted from "The Significance of the Growth of Public Expenditures in a Democracy," *Proceedings of the National Tax Association, Seventeenth Annual Conference* (1924), pp. 56-58. Copyright 1925.

yet largely escapes the responsibility which should accompany the power which they can and do exercise. Although no reliable statistics are available, it is very probable that the proportion of the population who receives benefits from these large public expenditures, without bearing a direct commensurate burden of cost, is greater than ever before.

In the democratization of society the increased diffusion of wealth and general well-being is a very desirable end to be achieved, but at the same time a just share of the burden of providing the public benefits should be borne by the mass of voters. The propertyless class or the tax-free element in every large city population in this country is so great that bond issues or provisions for public expenditures of almost any character and amount can be carried or enforced without much reference to the merits of the proposal or with little regard to the justness of the distribution of the cost. The average voter, who is almost always ready to favor such expenditures by the city, state, or nation, whether it is providing public parks, playgrounds, streets, or roads, feels that under the prevailing system of taxation and his propertyless character, or non-taxable holdings, he will pay little or none of the cost of such public expenditures.

In substance, those who have had most authority in matters of public expenditures have felt their responsibility least. That portion of the population owning those tangible forms of wealth, which have been most heavily taxed, have been in the minority and have been able to assert but little influence on questions of public expenditure. This group, in order to protect itself, has sought to shift a portion of the direct tax to others in the form of higher prices, increased rents, concealment, and in other ways. While this method has succeeded in diffusing the burden somewhat, it has failed entirely to produce a demand for the proper and careful administration of public expenditures that the same burden would probably have produced, had it been levied directly as tax instead of indirectly in a manner not always realized by those making the payment.

### C. THE GROWTH IN EXPENDITURE

#### 357. The Changing Functions of Government<sup>7</sup>

BY L. R. GOTTLIEB

Taxation did not exist in primitive society. The only collective need that asserted itself was that of common defense, and each mem-

<sup>7</sup>Adapted from "The Facts as to Growth in Public Expenditures," *Proceedings of the National Tax Association, Seventeenth Annual Conference* (1924), pp. 73-74. Copyright, 1925.

ber of the group contributed his services personally and directly in meeting this obligation. It is only when the political state arose that collective needs appeared in increasing measure and taxes were levied to meet these costs.

At first the functions of government were, for the most part, repressive in character. The duty of the constituted authority was to inflict punishment on the person who violated fixed rules of behavior and acted in a manner deemed to be against the interests of the group. From mere police measures against the consequences of the violation of society's rules of conduct, there developed the preventive duties of government which had, as their aim, the elimination of those conditions that gave rise to crime. It was found to be far less expensive to prevent the recurrence of violations than to wait for the law-breaker to act and then to punish him.

Finally, the functions of government went beyond the punishment and prevention of crime and included measures designed to alter conditions of life so as to increase the happiness of those constituting the community or the nation. Better roads; waterways; canals; sewerage systems; sanitation and health measures; care of the aged, sick, and infirm; better schools and libraries; extensive museums; zoölogical galleries; parks; mothers' pensions; soldiers' relief; public employment offices; and a myriad of other facilities have been and continue to be demanded by a progressive citizenry. The very transition from an agricultural to an industrial state and the congregation of large masses in urban centers in themselves have served to increase public outgo.

### 358. The Increased Cost of Government<sup>8</sup>

BY L. R. GOTTLIEB

Our investigations have shown that the amount of taxes raised by the federal government rose from 374 millions in 1890 to 668 millions in 1913, an increase of approximately 79 per cent. Thereafter the taxes exacted by the Federal Government rose rather rapidly until in 1919 the amount was 5,069 millions; in 1921, 4,430 millions; declining to 2,802 millions in 1922; and rising again to 3,223 millions in 1923.

Taxes raised by state governments increased from 96 millions in 1890 to 307 millions in 1913, a more than twofold increase. In 1919 taxes raised by the state governments had increased to 570 millions, in 1921 to 783 millions, in 1922 to 858 millions, and in 1923 to 882

<sup>8</sup>Adapted from "The Facts as to Growth in Public Expenditures," *Proceedings of the National Tax Association, Seventeenth Annual Conference* (1924), p. 76. Copyright, 1925.

millions. Taxes raised by all other governmental authorities, termed "local" (i.e., county, city, town, township, village, school district, road district, irrigation district, etc., governments) amounted to 405 millions in 1890, rising to 1,219 millions in 1913, a twofold increase. By 1919 the local tax burden had increased to 2,395 millions; by 1921 to 3,150 millions; by 1922 to 3,301 millions; and by 1923 to 3,601 millions. The total tax burden of the nation increased from 875 millions in 1890 to 2,194 millions in 1913, 8,034 millions in 1919, 8,363 millions in 1921, 6,961 millions in 1922, and 7,716 millions in 1923. Taking the year 1913 as the standard and expressing all figures in terms of dollars of a common purchasing power in that year (i.e., on the basis of the index number of wholesale prices), we find that the total tax bill of the nation has been growing from 1,080 millions in 1890 to 2,194 millions in 1913, 3,900 millions in 1919, 5,689 millions in 1921, 4,739 millions in 1922, and 5,010 millions in 1923.

### 359. The Activities of the Federal Government<sup>a</sup>

BY EDWARD B. ROSA

In order to get a proper perspective of the various activities of the federal government, protective, commercial, and developmental, the departments, bureaus, commissions, and other governmental agencies have been classified, according to their functions, into eight groups. A ninth group includes the sources of revenue from direct or indirect taxation.

TABLE I

	Per Cent	Per Capita
Group I—Primary governmental functions.....	3.9	\$ 2.11
Group II—Research, education, and development...	1.0	0.54
Group III—Public works.....	1.5	0.80
Group IV—Army and navy.....	13.8	12.68
Group V—Pensions and care of soldiers.....	5.8	3.09
Group VI—Obligations arising from the war.....	28.7	15.36
Group VII—Interest.....	16.3	8.73
Group VIII—Surplus for reduction of public debt.....	19.0	10.15
Total.....	100.0	\$53.46

The first three groups include all the normal civil activities of the government; the next three, the current costs of the army and navy, the care of soldiers, and the obligations arising from the war,

<sup>a</sup>Adapted from "Expenditures and Revenues of the Federal Government," *Annals of the American Academy of Political and Social Science*, XCV, 7, 9. Copyright, 1921.



are military; the last two may also be classed with the military as they represent the expenses arising from that part of the cost of past wars which is not yet liquidated. Dividing the amount expended for each group by the total for the year, we have the percentages given in the above table. Dividing the totals by the population of the country on June 30, 1920, 106,380,000, we have the per capita costs of each group.

Thus the expenses of three civil groups together amount to 6.4 per cent of the total, and the military groups, including interest and reduction of the public debt (paying for the war), amount to 93.6 per cent of the total. Before the war, as we shall see later when we come to examine the pre-war expenditures of the government, the civil expenses constituted a much larger part of the total, while of course during the war they were much less.

The second column in the above table gives the per capita costs of government in 1920. Of the total of \$53.46 per capita revenue collected through taxation in 1920, \$2.11 was spent for the primary functions of government, legislative, executive, and judicial; 54 cents was spent for research, education, and development; and 80 cents was spent for public works—a total of \$3.45. The remainder, \$50.01, went for military expenditures and paying for past wars. These civil expenses certainly do not seem unreasonable. Indeed, they are surprisingly small when we consider the wide range of federal governmental activities and the high costs of conducting business of all kinds in 1920. The net cost payable from taxation of municipal government in New York, Chicago, and Philadelphia in 1918 was \$30.22 per capita. In 1920 it was considerably more, probably not less than 10 times the per capita cost of the civil side of the federal government, as defined above.

One is led to wonder how it is possible to operate a great national government adequately on a per capita cost of \$2.11 for the primary governmental functions; and whether if instead of 54 cents per capita for research, education, and development, twice as much had been spent, it would not have made the burden of taxation lighter instead of heavier, by rendering a greater service to the people and creating wealth and aiding industry in larger measure.

### 360. Is Scientific Research a Luxury?<sup>10</sup>

BY EDWARD B. ROSA

The United States government is carrying on a very considerable amount of scientific and engineering work through a large number

<sup>10</sup>Adapted from "Expenditures and Revenues of the Federal Government," *Annals of the American Academy of Political and Social Science*, XCV, 26, 28-33. Copyright, 1921.

of bureaus located in several different departments. The Agricultural Department is sometimes spoken of as the greatest scientific institution in the world. The Geological Survey, the Bureau of Mines, the Bureau of Standards, and other bureaus are well and favorably known for their scientific and engineering work. The importance and economic value of such work is appreciated only by engineers and others who have been brought into intimate contact with such work. Our industries and our civilization are largely based on science and its manifold applications, realized in practice through the various branches of engineering. That the government should foster science and engineering and co-operate with and develop the industries by means of scientific and engineering research is very generally admitted. The extent to which it should go, however, will of course depend upon the returns secured for such work, and whether it appears profitable and helpful and on the whole necessary.

Agriculture is the most important industry of the nation. Agricultural and animal products amounted possibly to twenty-five billion dollars last year. Through its bureaus the Agricultural Department carries on a wide range of educational and experimental work in order to increase the production of farm products and to promote the interest of the farmer in his work, as well as to make life on the farm and in rural communities more attractive. This not only benefits the farmer, but tends to keep food prices within reason for city-dwellers. It is therefore serving all the people, and its work was never so much needed as at the present time. It is spending in this work not over \$1.00 for every \$1,000 of value of agricultural and animal products, and without doubt the results achieved pay many times the cost.

The Geological Survey is one of the oldest of our scientific bureaus and has done notable work of the greatest scientific and economic value. It includes, besides structural and economic geology, topographic surveys and studies of water supply and water power. The Bureau of Mines is an outgrowth of the Geological Survey, and is concerned with all the problems of mining and quarrying and the handling and treatment of their products, and also many phases of the petroleum and natural-gas industry, and the use of fuels.

These two bureaus are concerned with the mineral industries of the country: coal, iron, copper and the other industrial and precious metals, oil, gas, and the water supply and the topography of the land. Our country is rich in these natural resources but we are spending them in prodigal fashion. It is the business of these two bureaus to survey and map the distribution of metals and minerals; to look for new sources of supply; to gather statistics and to increase safety and efficiency in the mining and metallurgical industries; and to consider

what can be done to conserve these natural resources. The products of the mineral industries of the country amount possibly to six billions of dollars per year. They are indispensable to our manufacturers, and a most important part of our national wealth. If these two bureaus were to spend in this important work of research and development an amount equal to one dollar in a thousand of the annual value of mineral products, it would amount possibly to six million dollars per year, which is more than double present expenditures.

The Bureau of Education has done important and useful work, but has never been developed on a scale commensurate with the importance of its field. It is believed by many that the Bureau of Education should take a leading part in studying the science of education, and co-operate effectively with the educational institutions of the country in setting standards of education. It would not and could not dominate or control education, and there would be no danger of such a result. But it should be able to co-operate effectively and worthily, and to assist in raising educational standards where they are too low. The federal government is now assisting the states to the extent of a hundred million dollars a year in the building of highways. Why should it not assist in the supremely important work of education by taking a leading part in studying the problems of education?

Four bureaus of the Department of Commerce are engaged in developmental work. The Coast and Geodetic Survey is one of the oldest branches of the government doing scientific and technical work. It is charged with the survey of the coasts and rivers to the head of ship navigation, and the publication of charts, giving the results of base measurements, triangulation, topographic and hydrographic surveys, deep-sea soundings and temperature, magnetic observations, gravity research, determination of heights, latitude, longitude, and reference points for state surveys. This work, which is very fundamental and important, and upon which all other surveys are based, has been done with a high order of precision and thoroughness, and with marked credit to the government.

The object of the Bureau of Fisheries is to develop the production and consumption of fish as an important source of food. To stimulate production, scientific research on the habits and propagation of fish is carried on. The breeding of fish and their distribution into lakes and streams is done on a large scale. In all of this work, but particularly in connection with the propagation of fish and the protection of fish against extermination, the bureau co-operates with the various states.

The Bureau of Standards maintains the fundamental standards

of physical measurement. It co-operates with foreign governmental institutions in maintaining international uniformity in such measurements. It provides or calibrates copies of standards for states and manufacturers so as to insure uniformity in physical measurements. It develops instruments and methods to secure the highest possible accuracy in measurements and the greatest permanence and reliability in standards. It co-operates with engineering and trade organizations in standardization work, and carries out investigations on the properties of materials to secure data for such standardization.

A very large amount of work is done for the army and navy and other branches of the federal government, for state commissions and officers of state and municipal governments, and the general public. It also carries out a large amount of scientific and industrial research to develop the industries of the country.

Excluding food products, tobacco, and liquors, the annual value of manufactured products in this country, over and above the value of the raw materials entering into them is possibly \$12,000,000,000. The Bureau of Standards spends this year a sum not more than ten cents per \$1,000 of manufactured products in all its work, and scarcely more than one-half of it is for the purpose of developing these manufactures. If this sum could be considerably increased, it would enable a much larger amount of work to be done and the work could be carried on more efficiently. If it were multiplied by ten, it would be none too much, and would enable the government to do for the manufacturing industries something like what it is doing for agriculture.

The Bureau of the Census does a large amount of statistical work in addition to taking the decennial census of the population, agriculture, manufactures, mines, and quarries. It is charged with collecting statistics at specified intervals regarding dependent, defective, and delinquent classes; wealth; taxation; state and municipal revenues and expenditures; and many other subjects.

The Bureau of Labor Statistics gathers the statistics of wages in the various industries and the cost of living, and publishes much valuable material of interest to labor and capital. The prosperity and happiness of all the people depend to a considerable extent upon industrial peace, and freedom from strikes and disorder. Industrial peace and contentment require justice and fair dealing between employers and employed. In order that both may know what is just and fair, statistical information as to wages and changes in prices and the cost of living is essential.

The Public Health Service is one of the most important of the agencies doing work of research and education. It maintains super-

vision over incoming vessels to prevent the introduction of diseases; to prevent the spread of diseases between the states it makes inspections and co-operates with the state departments of health; statistics of diseases are collected and interpreted, and scientific research is carried out to develop methods of preventing the spread of disease. The service has recently formulated a comprehensive health program to be carried out on a nation-wide scale by the active co-operation of federal, state, and local authorities and voluntary organizations.

A large amount of most valuable medical, statistical, and research work is carried on by the Public Health Service, which has been greatly developed in recent years. The opportunities presented in this work for growth and increased usefulness are almost boundless. In addition to its work in connection with the public health, a large amount of work is done in the care and rehabilitation of sick and wounded soldiers.

The foregoing brief outline of the activities of the various government agencies gives a very incomplete statement of the research and education work done by the government. It is, however, intended to convey some idea of the wide range and important character of this work, and its great possibilities for development if more adequate provision could be made for its support.

The average cost of all this work for the ten-year period, 1910-19, was 28 cents per year per capita of the country's population, certainly a very small sum in proportion to the importance of the interests represented, and also in proportion to the aggregate of the federal taxes collected.

### 361. The Trend in State Expenditures<sup>11</sup>

BY AUSTIN F. MACDONALD

In the year 1913 the forty-eight states of the Union spent about \$382,000,000 for governmental purposes. In 1922 they spent somewhat in excess of \$1,280,000,000. The cost of operating our state governments increased, therefore, 235 per cent in the nine-year period from 1913 to 1922. Made without explanation or reservation, this is a rather startling statement. But there are two factors which obviously must be taken into consideration in making any comparison of governmental expenditures during the last decade. One is an increase of 35 per cent in the population of the United States; the other is an increase of 49 per cent in the general level of prices.

When reduced to a per capita basis and measured in terms of

<sup>11</sup>Adapted from "The Trend in Recent State Expenditures," *Annals of the American Academy*, pp. 8-14. Copyright, 1924.

1913 dollars, therefore, state expenditures for governmental purposes exactly doubled in the period from 1913 to 1922. One hundred per cent represents the true rate of increase. An actual increase of 100 per cent in the per capita cost of running our state governments within the short space of nine years calls for more than a passing comment.

The demand of the American people for new services and for higher standards undoubtedly accounts in part for the rapidly increasing cost of operating our state governments. Whether it offers an adequate explanation can be determined only by examining in detail the various items of state expenditure, and ascertaining the purposes for which state money is being spent.

About 10 per cent of state expenditures for governmental purposes in 1913 was made for the upkeep of the legislature, the courts, and the various branches of the executive department. The actual amount spent per capita shows an increase of but little more than 4 per cent in the expenses of general government. Nor does the amount devoted to the protection of person and property reveal any marked increase. In 1913 the states were spending for this purpose 26 cents per capita. The sum used for various regulatory purposes rose gradually, but by 1922 the total amount devoted to protection of person and property was only 48 cents per capita, as compared with 26 cents nine years previously. This meant a real increase, eliminating price changes, of about 53 per cent.

In 1914 the federal government inaugurated the practice of subsidizing the states for the purpose of carrying on extension work in agriculture, and required the state governments to make large appropriations for the work before receiving federal funds. Payments for forest fire protection, for the maintenance of dams and reservoirs, for the protection of fish and game, and for a number of other purposes were included in this group; but development of agriculture represented 80 per cent of the total, the main items being agricultural extension work and the maintenance of agricultural experiment stations. In 1915 the states were spending 17 cents per capita on the development and conservation of their natural resources. Four years later the amount was only 23 cents, but by 1922 it had leaped to 38 cents, an actual increase of 53 per cent over 1915, even discounting rising prices. The additional care bestowed upon natural resources was therefore responsible for at least a part of the increase in state expenditures between 1913 and 1922. But it was responsible for only a small part.

In recent years considerable emphasis has been placed upon public health and sanitation, and appropriations for this work have

grown larger annually. But the preservation of public health has never necessitated more than a trifling per capita outlay by the states. In 1913 the amount spent per capita was 7 cents—less than 2 per cent of all state disbursements for governmental purposes during the year. Nine years later it was 20 cents, an actual increase, after eliminating price changes, of 85 per cent.

Of all the items in the list of state governmental expenditures, none has had such a remarkable growth as that labeled "Highways." This refers only to the maintenance of roads, and does not include new construction. In 1913 the states were spending for the care of their highways 14 cents per capita, or  $3\frac{1}{2}$  per cent of their total costs. Compared with 1903, when only 6 cents for each person had been paid out, this seemed a large sum; but it was dwarfed by the expenditures of the following years. The substitution of automobiles, and particularly of heavy commercial trucks, for the lighter horse-drawn vehicles of former days, results in an unprecedented amount of wear and tear on the highways, and made necessary the outlay of thousands of dollars for upkeep where hundreds had previously sufficed. In 1915 state costs for road maintenance had mounted to 23 cents per capita; in 1917 they were 33 cents; by 1919 they had reached 59 cents; in 1921 they were 72 cents; and by 1922 they had climbed to 98 cents per person. This was a nominal increase of 600 per cent over 1913, and of more than 1,500 per cent over 1903. Even when reduced to terms of the pre-war dollar, it represented an actual rise of 364 per cent over 1913. By 1922 the states were devoting somewhat in excess of 8 per cent of their total governmental expenditures to the upkeep of highways—more than four times the amount they had been spending on new road construction three years previously.

It must not be forgotten, however, that the federal government pays over to the states every year large sums to aid in the building of new highways, while placing the burden of maintenance entirely upon the state governments. Nearly half of the money listed under state disbursements for road upkeep in 1919 was not spent directly by the state governments, but was distributed by them among their civil subdivisions, to be used under state supervision.

For a number of years the largest amount paid out by the states for any item of expenditure, with the single exception of education, was for charities, hospitals, and corrections. In 1913 the per capita cost was 90 cents, or 22 per cent of the total cost of operating the state governments. Nine years later it had risen to \$1.50. Eliminating price fluctuations, this was an actual increase of only 11 per cent, as compared with a general rise of 100 per cent in state costs. In

1922 charities, hospitals, and corrections were responsible for but 12 per cent of state governmental disbursements, so that they were relatively less important than in former years.

In 1922, as in 1913, the largest single item of state costs was education. Expenditures for educational purposes increased considerably during the nine-year period, but only half as rapidly as state expenses. In 1913 nearly 35 per cent of all state governmental payments was made for education; in 1922 less than 29 per cent was devoted to this purpose. The 1913 outlay per capita was \$1.38; by 1922 this had risen to \$3.07, but the actual increase in terms of pre-war dollars was only 50 per cent. While appropriations for schools were in most states fairly generous, the sums made available for libraries were ludicrously small. In 1919 they amounted to one cent per capita, or less than one-sixth of 1 per cent of all state governmental expenditures; and three years later, though they had risen to nearly two cents for each person, they still represented less than one-sixth of 1 per cent of total state costs.

State expenditures for most of the newer functions of government have increased rapidly in recent years, but this is not true of recreation. Under the general heading "Recreation" are included parks, reservations, and monuments, as well as public amusements furnished by the state and recreation of an educational nature, whether within or without the schools. In 1913 two cents per capita was spent by the states for recreational purposes, but in the years immediately following 1913 this amount fell off to one cent per capita, where it remained until 1921. In the latter year it rose again to two cents, only to fall off slightly during 1922, so that during a period when state expenditures doubled, recreational outlays increased not at all. In fact, in terms of the 1913 dollar, there was a decrease of 45 per cent—the only decrease in the long list of state expenditures. It seems rather unfortunate that they should choose as the first field of their endeavor the supplying to the people of wholesome recreation.

A number of items of state expenditure have been grouped together by the Census Bureau for want of a better classification, and labeled "General." Here are found all the odds and ends of state costs, such as printing and stationery and sums paid out to satisfy judgments. More than half of the total paid out under this heading in 1921 went for pensions, especially to veterans of former wars.

In recent years state debts have mounted rapidly. Current revenues have not proved sufficient to pay for the large construction programs undertaken by a number of commonwealths, while the movement for bonuses to veterans of the world-war has led to a still fur-



ther extension of state indebtedness. In 1915 the per capita debt of the states was \$4.31; by 1922 it had risen to \$8.12, an increase of 88 per cent. Under these circumstances we should expect to find a similar rise in the amount paid out by the states for interest charges, and the figures do not disappoint us. In fact, they show an even greater increase for interest payments than for state debts, doubtless because of the advance in the general level of interest rates during the period. Interest payments have never played an important rôle, however, in the cost of operating our state governments. They represented less than  $2\frac{1}{2}$  per cent of all state expenditures in 1921.

Armed with this long and rather tedious array of statistics, we are in a position to draw some conclusions as to the recent trend of state expenditures. Governmental costs, we find, are rising steadily, but these increases are due almost entirely to the expansion of governmental activity and to the improvement of governmental service. Eliminating price fluctuations, there has been no material increase in the last decade in the per capita cost of operating our state executive, legislative, and judicial departments. The same is true of protection to person and property, while public recreation has suffered a decrease. Education, charities, hospitals, and corrections have all been affected by the public demand for higher standards. Better-equipped schools and better-trained teachers are everywhere regarded as a necessity. The care of the physically, mentally, and economically unfit is coming to be regarded as a science. These changing concepts mean larger appropriations to maintain the higher standards, but the increases have not been large.

#### D. TENDENCIES IN TAXATION

##### 362. The Spirit of the Personal Income Tax<sup>12</sup>

BY THOMAS S. ADAMS

What is the essential spirit and purpose of the income tax? In my reading of its spirit and purpose, the income tax is principally this: a rather blind groping of democratic peoples to reduce and relieve the striking inequalities in the distribution of wealth and income. We live and work under an industrial and commercial system which combines marvelous productivity with extreme concentration in the ownership and control—particularly in the control—of wealth. Politically, the major forces at work make for equality. Commercially, the greater forces make for concentration and inequality of

<sup>12</sup>Adapted from "Evolution versus Revolution in Federal Tax Reform," *Proceedings of the National Tax Association, Sixteenth Annual Conference* (1923), pp. 306-7. Copyright, 1924.

power. The two forces—democracy and capitalism—are irreconcilable, without some corrective or equilibrating machinery, such as progressive taxes. They are the inevitable price which capitalism must pay for the opportunities offered to it by stable government. If they fail, private business on the capitalistic basis will, in my opinion, fail. Beat them down and you beat down modern business.

I believe in modern business. It has multiplied industrial power fourfold in the last sixteen years and has enormously increased the economic product available for consumption. It would be possible justly to formulate a magnificent tribute to modern business. I would be the last to injure or harass it. But I refuse to be governed by it. It must pay for its opportunities. The fortunate, the successful, the wealthy, must make special contributions to the state under which, and, in part, because of which, they enjoy success and wealth.

### 363. The Revenue Act of 1924<sup>13</sup>

BY RAY G. BLAKEY

The Federal Revenue Act approved June 2, 1924, is not a revolutionary measure; on the contrary, it is very similar in general character to the Revenue Act of 1921.

The chief features in both of these measures are reductions in the rates of federal internal taxes which reached their maximum in the Revenue Act of 1918. Even the Act of 1918 provided for reductions in the normal income and profits taxes on incomes received in 1919 and subsequent years. The Act of 1921 lowered the surtaxes on incomes, repealed the excess-profits, transportation, and some other taxes, and made numerous other provisions favorable to the taxpayers.

The latest act carries the reduction of income and excise taxes still farther, but does not even approximate the pre-war level of rates. Unlike the first revenue measure passed after the adoption of the Sixteenth Amendment but like most of the later acts, the Revenue Act of 1924 has nothing to do with the customs tariff but confines itself to internal revenues, devoting by far the most consideration to the income tax.

The outstanding features of the 1924 act are:

1. Rebates or refunds of 25 per cent of the taxes levied upon individual incomes received in 1923 are allowed taxpayers making returns required by the Revenue Act of 1921 (that is, upon taxes payable in 1924).

<sup>13</sup>Adapted from an article with this caption in the *American Economic Review*, XIV, 475-77. Copyright, 1924.

2. The surtax begins at 1 per cent upon the bracket of net income between \$10,000 and \$14,000 and increases until it reaches a maximum of 40 per cent upon incomes in excess of \$500,000. Under existing law the surtax began at 1 per cent upon the bracket of net income between \$6,000 and \$10,000 and reached a maximum of 50 per cent upon income in excess of \$200,000.

3. Normal income tax rates are 2 per cent upon the first \$4,000 of net income, 4 per cent upon the next \$4,000, and 6 per cent upon the excess above \$8,000. Under the 1918 and 1921 laws the rates were 4 per cent upon the first \$4,000 and 8 per cent upon the remainder.

4. The personal exemption for a married couple, or head of a family, is \$2,500 and no return is required if the net income is less than this amount. Under existing law the corresponding personal exemption was \$2,500 if the net income did not exceed \$5,000, but if it was in excess of this sum the exemption was reduced to \$2,000 and, in any case, a return had to be made if the net income exceeded \$2,000, whether any tax was payable or not. The exemption of \$1,000 for single persons was not changed.

5. "Earned" incomes of individuals are to be taxed 25 per cent less than other incomes. The whole of net incomes of \$5,000 and less are to be considered "earned," but in cases of larger income \$10,000 is the maximum that may be considered as "earned." Previous federal revenue acts made no differentiation in favor of "earned" income.

6. Capital net losses are not permitted to reduce income taxes by more than 12½ per cent of such losses, and the deduction for discovery depletion is limited to 50 per cent of the net income from the property depleted.

7. The corporation income tax rate remains unchanged at 12½ per cent, despite a hard fight upon it. The capital stock tax of \$1.00 per \$1,000 is unchanged also.

8. The estate tax begins at 1 per cent upon the "net estate" not in excess of \$50,000 and rises to 40 per cent upon the excess above \$10,000,000. Under the two previous acts the minimum rate was 1 per cent and the maximum 25 per cent.

9. The gift tax, with the same rates and with approximately the same exemptions and other provisions that apply to the estate tax, is a new feature.

10. The prevention of evasions, legal and illegal, is attempted in sections dealing with the organization and reorganization of corporations, the accumulation of undistributed earnings, the formation of trusts, the making of gifts, and the selling of property for less than fair value.

11. A Board of Tax Appeals, independent of the Treasury Department, is provided for the unbiased consideration of disputed income and estate taxes. The Committee on Appeals under the existing law was under the Bureau of Internal Revenue.

12. Limited publicity of taxes and returns is provided. Returns are to be open to the Ways and Means Committee and the Finance Committee and the Commissioner is to publish the name of each person making a return, together with the amount of income tax paid. Hearings before the Board of Tax Appeals are to be open to the public as are the records of the Board. These publicity provisions are new; the old provisions relative to access to the returns are practically unchanged otherwise.

13. Numerous excise taxes are reduced or repealed. Among the taxes repealed are those on telephone and telegraph messages, candy, soft drinks, inexpensive jewelry, certain sporting and traveling goods, certain furnishings and fixtures, admissions costing 50 cents or less, truck chassis sold for \$1,000 or less, automobile truck and wagon bodies sold for \$200 or less, and stamp taxes on promissory notes. Taxes upon tires, inner tubes, and accessories, except when sold to manufacturers, are reduced from 5 per cent to  $2\frac{1}{2}$  per cent, but taxes upon automobiles other than those mentioned above are not changed. The heavy taxes upon tobacco and manufactures thereof are unchanged.

### 364. Taxing Energy and Initiative<sup>14</sup>

BY ANDREW W. MELLON

The existing system of taxation was framed to meet wartime conditions. But with the passing of those conditions and the continuance of the unscientific tax rates, the burden is now being borne chiefly by the man of initiative attempting to make money under the usual conditions of business competition. These rates bear most heavily on the producer, the salaried man, and those engaged in trying to make a competence for their later, unproductive years. They penalize principally the middle incomes, while permitting wealth to escape by investment in tax-exempt securities and by other available methods. The vital defect in our present system is that the tax burden is borne by wealth in the making, not by capital already in existence. We place a tax on energy and initiative; and at the same time provide a refuge in the form of tax-exempt securities, into which wealth that has been accumulated or inherited can retire and defy the tax collector. We have under the high surtaxes a system that in-

<sup>14</sup>Adapted from *Taxation: the People's Business*, pp. 93-96, 106-7. Copyright by the Macmillan Co., 1924.

creases the actual tax burden on the men of moderate incomes and allows many of the largest incomes to escape taxation.

Initiative has always been the most valuable American characteristic. It was this spirit in the early colonists which brought them to America, not to find an easier existence, but to enjoy religious and political freedom, as well as to better their material condition. They faced death by savages and starvation in order to build up a new country. It was the same spirit of adventure which peopled and developed the West. And it is this same spirit extended into business that has made America the great and prosperous nation she is today.

The United States is no mere happy accident. What we have has been achieved by courage and hard work. The spirit of business adventure has built up in this country a civilization which offers unprecedented rewards to any man who is willing to work. But where the government takes away an unreasonable share of his earnings, the incentive to work is no longer there and slackening of effort is the result. To share not at all in a man's losses and to take one-half of his gains, making him work three days out of six for the government, is to impose odds too heavy to be borne. More and more the business adventure becomes too hazardous and the high spirit of initiative disappears in discouragement. An economic system which permits wealth in existence to escape its share in the expense of the government, and wealth in creation to be penalized until the creative spirit is destroyed, cannot be the right system for America.

It would seem necessary to reduce the surtaxes, not only as a means of saving the productivity of the system, but also on account of the far-reaching effect which such a reduction would have on the country's continued development. It is a strange theory of taxation which, in order to make the gesture of taxing the rich, retains rates that are producing less and less revenue each year and at the same time discouraging industry and threatening the country's future prosperity. It is true that many existing industries are prospering and that the country's condition today is sound. But new investments are not being made in sufficient number and new enterprises are starting out under a disadvantage as compared with old established ones. No useful purpose will be served by pretending to reduce the surtaxes. In order to have any economic effect at all, they must be cut far enough to free capital for new enterprises. In other words, we must return again to an economically sound basis of taxation.

365. The Threat to the Income Tax<sup>18</sup>

BY THOMAS S. ADAMS

I have watched for four or five years, hopefully and sympathetically, able and zealous administrative officers attempting to master this colossal task of satisfactorily administering from Washington an income tax applicable to a nation of over one hundred million people. Despite my hopes and predilections, I grow less hopeful about the outcome. I still believe that it is possible to save the income tax as a business tax; to make it reasonably prompt and certain in its administration. But I feel no assurance that the changes necessary to bring about certainty and promptitude will be made.

1. *An awakening necessary.*—About some important aspects of the subject, however, I am reasonably certain. First of all, the income tax will be wholly discredited, left without an unprejudiced and open-minded advocate, unless the friends of the tax in Congress, in the Treasury Department, and among the people waken to the crucial gravity of the administrative problem involved and become imbued with the determination to put into effect whatever measures may be necessary to save the tax. Already the business world is disgusted with the income tax. There is a steadily widening conviction that the income tax is too big and too intricate to be successfully handled by any federal administration. Among certain ardent advocates of the income tax the suspicion is spreading that the administration of the tax is being purposely bungled in order to discredit it. They suspect administrative sabotage. I do not believe for a moment in such an idea. No one who knows how desperately hard the higher officials of the Treasury Department have worked during the past six years to put the war taxes "over" could seriously entertain such a suspicion. But that the tax should be working in such a way as to give ground to this suspicion is a highly significant thing.

2. *A simple income tax impossible.*—In casting about for remedies, we may as well put aside as vain the hope that the tax can be made really simple. No net income tax, with a substantial rate, applicable to all classes of business can be made simple. This is a defect, but it is not a fatal defect. The plumbing, heating, lighting, and cooking arrangements of our homes, upon which our daily comfort depends, are not simple and grow more complex with the passage of time; but we shall not abandon them on that account. Not

<sup>18</sup>Adapted from "Evolution versus Revolution in Federal Tax Reform," *Proceedings of the National Tax Association, Sixteenth Annual Conference* (1923), pp. 313-19. Copyright, 1924.

366. The Social Theory of Taxation<sup>18</sup>

BY DAVID FRIDAY

The burden of taxation will be heavy for many years to come. So much was inevitable once we entered the European conflict. When a generation decides to go to war it subjects itself to heavy taxes, not only during the period of hostilities, but for itself and its children afterward.

A criticism frequently urged against the new taxes denies their justice. As to justice, both the income and excess profits taxes rest upon the principle that the subjects of the state should contribute toward the support of the government in proportion to their abilities. It assumes that ability is measured by the income which the subject derives under the protection of the government. In the case of individuals this ability rises progressively as personal income increases. In the case of business establishments it assumes that the ability to contribute toward the support of government increases as the ratio of earnings to investment grows larger. A defense similar to the one made on the ground of ability is that which accepts equality of sacrifice as a basis for the apportionment of taxes. Benefit received, which is still another principle for the apportionment of the tax burden, is not commonly cited in defense of income taxes, especially progressive and differential taxes.

But ability and sacrifice are both rather vague criteria for determining justice in taxation. Sacrifice is not capable of exact quantitative measures, and ability sets no limit to taxes except the subsistence minimum. Obviously that must be left to a man if the tax levy is to be repeated at subsequent intervals. When simply stated, the ability theory usually finds ready acceptance. A man with an income of one million dollars ought to pay more than a man with an income of two thousand, not only absolutely more, but more in proportion to his income.

The inadequacy of such general principles as "benefit," "sacrifice," and "ability" as criteria of justice in taxation becomes apparent when one attempts to defend specific rates of progression by an appeal to those standards. What, then, is the true principle of justice in taxation? The most adequate principle of justice in taxation which I have been able to formulate is that a just tax is one which fits into our industrial and social process in such a manner as to bring it most nearly into conformity with our ideal program. This means that before we can pass upon the justice of any system of taxation, we must

<sup>18</sup> Adapted from *Profits, Wages, and Prices*, pp. 177-88. Copyright by Harcourt, Brace & Howe, Inc., 1920.

first formulate the kind of industrial society which we desire to establish. If that society is one in which the final disposition of income is more nearly equal than that which results from the operation of the forces which determine profits, wages, and prices, then progressive income taxes are desirable. If we find, in fact, that profits tend, under the competitive forces actually at work, to exceed the ideal minimum of profits necessary to evoke the effort of business men, then a tax upon the surplus or the excess will tend to bring profits nearer to the necessary norm.

Probably this is pretty much the situation in the United States to-day. There is general amazement at the extreme size of the larger incomes, and a pretty general conviction that a more nearly equal distribution of wealth would be a change in the direction of greater justice. The general attitude which courts and commissions, as well as the public, have taken in the matter of fair return upon public utilities and railroads indicates that the public believes that fair profits lie well under 10 per cent. When they observe profits of 20, 30, 40, and 50 per cent, people no doubt feel that justice and fairness demand that a considerable part of them be taken in taxes before the earnings of the less profitable businesses are touched. The more the facts concerning personal incomes and business profits become common knowledge, the more will the dictates of common sense, fairness, and justice insist that progressive surtaxes and excess profits taxes be retained. And justice is nothing more than what is generally admitted as equitable at the time and in the place concerned. "Equity," says Edwin Cannan, "must be what is regarded as such by the mass of people." The people want a more democratic society. Industrially, that means to them a greater equality of personal incomes. It seems obvious that progressive income taxes and excess profits taxes tend in that direction. Therefore the great mass of people considers that such taxes satisfy the demand of justice in taxation.

There are of course those who insist that this is using the right of taxation to subvert the right of property and of contract. But all taxation is in a sense a limitation of the right of private property, as is all regulation of public utilities. What a man receives for his services, for the use of his property, or for the product of his factories, is his private property subject only to the sovereign right of the state to tax. But it is subject to that right, which is limited in the long run only by the dictates of justice, and justice has for its custodian public opinion. Any arguments based upon justice will be ineffective against progressive income taxes and excess profits taxes, as long as the public is directed to democracy as an ideal.

It is well, too, to remember that the operations of the market re-



sult in giving many people who furnish economic services a share much larger than necessary to bring forth those services. There are "surpluses" which exceed the "necessary" amount which men demand by way of wages, salaries, interest, rent, and profit.

For the theory of taxation the significance of this distinction between "necessary" and "unnecessary" incomes is that the surplus by which the latter exceed the former may be taken by the state without interfering in any wise with individual exertion in the field of industry. A tax which falls upon all profits and incomes alike may discourage the man who receives only the "necessary" income before paying taxes; but a tax which falls only upon the windfalls, the fortuitous gains of industry, leaves the orderly processes of business undisturbed. As we have observed before, such a tax may interfere with capital accumulation, and may be undesirable for that reason, but that is a separate consideration. Individual initiative and enterprise, as well as personal endeavor, will continue unabated.

## E. THE INHERITANCE TAX

### 367. The Clumsy Blunderbus<sup>17</sup>

BY ALBERT W. ATWOOD

Now, gentlemen, may I speak bluntly? As tax officials and actual tax experts, you say there is no more place for a scheme to relieve the inequalities of wealth in the science of taxation than there is a place for religion.

Might it not be well to educate the public that high estate taxes, as "corrective and equilibrating machinery," deal only with results and not with causes, that in the long run the people can expect far more from elevating the plane of competition, from protecting the weak and prosecuting the guilty?

Should not the public be told that any estate tax rate, high enough to reduce swollen fortunes, is also high enough to act as a clumsy blunderbus; that once rates are high enough to reduce fortunes, the real force and incidence of their operation depend almost entirely upon purely arbitrary and accidental factors, such as fixed periods of time for contemplation of death, upon market conditions at the moment, upon the character of the investments held, upon whether liquid tax-exempt securities or coal and coke lands, traction companies, and the like form the bulk of an estate?

Should not the public be told that when inheritance duties become

<sup>17</sup>Adapted from "Inheritance Taxes and the Public," *Proceedings of the National Tax Association, Seventeenth Annual Conference* (1924), pp. 241-43.

high enough to relieve the inequalities of wealth and income, the results perforce must be grotesque in the extreme? The idle and dissipated son of a bootlegger may pay less than the son of the most useful and socially serviceable manufacturer, even though the son himself, in the latter case, may have done as much as the father to build up the business.

Should not the public be told that by far the most striking result thus far of the extraordinary widespread use of inheritance taxes in this country has been the amazing complexity and degree of unevenness of their application, all of which is accentuated, the moment any rate high enough to relieve the inequalities of wealth is introduced?

The trouble is that inheritance taxes on the surface seem so simple, so non-controversial, and so appealing to one's sense of justice that they have been applied with a careless abandon, and as a result most of the talk about them is mere parrot-like patter.

### 368. The Inequality of Property<sup>18</sup>

BY HENRY CLAY

Is the unequal distribution of property inevitable? Inequality of property is, in part, merely a reflection of inequality of incomes. People with large incomes can save and so accumulate property. This inequality of income, in turn, is in part a result of natural inequality, but much more of the inequality of opportunity, which the existing economic inequality involves, and the results of both natural and circumstantial inequality are magnified by the large scale of modern economic enterprise.

The inequality of property is, however, much greater than the inequality of income. The explanation is to be found in the right of inheritance. Personal qualities, exceptional ability or industry, do not survive their possessor; accumulations of wealth can be transmitted to descendants. Thus the effects of inequality are cumulative; the advantage gained by one generation of a family provides a start in the race for wealth in the next generation. And the change in the form of property that we have noted enhances this cumulative effect.

Formerly, when ownership and use of capital were indissolubly associated, the intrinsic difficulty of administering and holding together an estate increased disproportionately as the estate increased, and the fact that the descendants of the exceptional person who created the family fortune rarely inherited his exceptional ability, was a constant influence making for the disposal of large accumulations.

<sup>18</sup>Adapted from *Property and Inheritance*, pp. 19-30. Published by the Daily News, Ltd. (London), 1923.

This influence was counteracted by the practice of converting large fortunes into land, and tying up landed estates by strict settlements; but the strictest settlement could not protect an estate from the incompetence and folly of the heir who would have to administer it. Today we have changed all that. By the separation of ownership and use, and the vesting of ownership in gilt-edged securities, ground-rents, and the like, administered perhaps by conservative investment trusts, we have made it possible for an heir to draw the income of his estate without taking any part whatever in the administration of the capital which it represents. Hence the snowball accumulation of large fortunes is not liable to be checked by the thawing influence of incompetence, relative or absolute, in the heir.

Now the inequality due to inheritance must be sharply distinguished from the inequality that results from differences in the natural capacity and industry of each generation. The latter has some economic justification; large rewards are possibly needed to induce people to make the effort and sustain the anxieties which modern industry requires in its higher direction, and society probably gets more out of a Henry Ford than it pays him. In manufacturing industry, and merchanting in particular, a large part of the stock is held by the persons in active control—even in the case of businesses on the scale of the Ford Company. But this association is severed when the man who made the business dies. The property his heirs enjoy is not an incentive to effort on their part, but rather a discouragement. The economic grounds, on which the right to accumulate property rests, therefore, afford no justification for the right to inherit property.

Against this it may be urged that the right to bequeath, and so to provide for one's offspring, is an important element in the inducements that lead great entrepreneurs to perform their useful functions. This argument confuses two things. One is the desire to insure economic security for one's offspring, a legitimate ambition, but one that does not require the present unlimited right of bequest for its fulfillment. The other is the ambition to secure for one's family the social distinction of belonging to the very limited class of the very rich. The ground of this distinction is the convention that the ability to be idle and expend lavishly is evidence of superiority; if social conditions made such a method of distinguishing one's self impossible, other conventions would take its place, just as during the war the efforts of profiteers to demonstrate how much they could spend were balanced by the efforts of other people to show how little they could spend, socially a more desirable way of distinguishing one's self. In other words, the incentive which the power to "found a family" at present

offers is a desire for a sort of posthumous social distinction which could be satisfied in other, socially more desirable, ways.

The way to attack the problem presented by the unequal distribution of property, then, is to limit the present unrestricted, or almost unrestricted, freedom of bequest. In principle there is nothing revolutionary in such a proposal; the right is of recent development, and it is found in no other country in the unrestricted form in which we have it.

Rignano traces all the economic evils of modern society to the separation of labor from the instrument of production. His object is to restore these instruments to the possession of labor. Directly, this restoration is impossible, owing to the complexity of the modern productive system; but indirectly, through the agency of the state and various co-operative and syndicalist organizations, it may be achieved. He differs, however, from most socialists in recognizing the stimulus to work and save that private property now affords, and the necessity of preserving this stimulus if the accumulation of capital is to proceed.

He proposes, therefore, to leave the right of succession, but to restrict it to the bare limits necessary if it is to operate as an incentive to wealth production and capital accumulation. The restriction is to be imposed in the form of an inheritance tax, "progressive in time." In other words, instead of making the tax progressive, like the English Estate Duties, a higher rate of tax being levied on the larger estates, he would graduate the tax according to the distance the estate had passed from the person whose activity or saving first accumulated it. Thus, the tax might be 20 per cent at the first transmission, 40 per cent at the second, 60 per cent at the third, 80 per cent at the fourth, and 100 per cent at the fifth; this would mean that on an average all accumulations of wealth would pass to the state by the end of the third generation after that of the person who made them.

The obvious administrative objection to this proposal is the difficulty of distinguishing between the elements in a single fortune which are at different stages in their progress toward the national exchequer, but it is not decisive. The decisive question is whether we desire the progressive reduction of the field of private property, which is the real end of this proposal.

We have still to consider the possibility of securing the diffusion of property, and, in particular, of so restricting the right of bequest as to promote the diffusion instead of the concentration of property. In this aim, a neglected suggestion of John Stuart Mill's is worth consideration. Standing on the watershed that divided the old economic order from the new, Mill was acutely aware both of the evils of the

authoritarian order that had been swept away and of the dangers of unrestricted freedom of contract on a basis of absolute property rights that was being substituted. He proposed, out of respect for the "incentive" argument, that a man should be free to bequeath his property, but that a limit should be set on the amount that any one man might inherit.

The end he had in view could be attained with more certainty and less administrative difficulty by a rather different regulation; it might be made a condition of the right of bequest that the estate after paying Death Duties, should be divided, and that the fractions into which it was divided should be smaller the bigger the value of the estate. The condition might be put in the form of a scale: Estates of £5,000 and under need not be divided; of estates of £5,000 to £10,000 as much as 60 per cent might be left to one person, and then the percentage that might be left to any one person would diminish to perhaps 5 per cent in the case of estates of a million and upward. At present, when a millionaire dies, his place is taken by another millionaire; the object of this type of proposal is to secure the dispersion of each generation's accumulation at the end of the generation, to enforce a continual redistribution of property, and to substitute a large number of small fortunes for a small number of large fortunes. The rate of change would be set by the scale adopted, and the steepness of the scale would depend on the strength of society's desire for equality.

Mill found himself, in putting forward this proposal, faced with a difficulty he could not overcome. At that time his proposal would have involved the breaking up of the unity of large industrial enterprises. Since his time the development of joint stock has removed the difficulty. The separation of the ownership of capital from the administration of industry has made possible any division of the former without affecting the unity of the latter.

Mill's proposal, so far as I know, failed entirely to secure consideration. No country or party has deliberately adopted a policy of equalizing property. It is not that the principle of compulsory division at death is novel; it is well established in the practice of other countries, though not with the direct object of promoting equality. Nor are the administrative difficulties insuperable; most of them have already been faced and overcome in the administration of the Estate Duties; evasion by gifts *inter vivos* would promote rather than prevent the object of this reform. It would seem that the distinction between the effects of the property right as such and the effects of the inequality of its distribution has escaped politicians. The defenders of property are, in the main, the defenders of inequality; the advo-

cates of equality have given up all hope of reforming property, and thrown in their lot with the authoritarian reformers who seek to abolish it.

A generation ago Matthew Arnold exhorted English people to "choose equality and abjure greed." More recently Mr. and Mrs. Webb have revived this precept, and the need of the advice is as great as in his time. What progress has been made in the interval has been due mainly to progressive taxation, the motive of which was almost purely fiscal, and the indiscriminating outcry from the richer classes against the pressure of this taxation today seems to indicate a determination to choose greed and abjure any thought of equality. Yet the organic, highly centralized productive system that is developing makes greater economic equality essential if the liberty that its productiveness promises is to be realized.

The diffusion of property is the most conservative way of securing this greater equality that suggests itself, and the regulation of inheritance is only one element in a general policy of promoting the diffusion of property. In the face of the characteristic inequalities of modern industry democratic reformers have concentrated on extending the scope and activities of the state. But existing states are not such perfect expressions of the people's will that we should wish to put all our eggs into that particular basket. The extension of the state's economic activities is necessary and will continue; the dangers it involves would be less if it could be supplemented by the creation of a large independent class of small owners of property. Whether such a policy is possible I cannot say; all I can say is that it has been achieved in Irish rural society, and it has not failed, for the simple reason that it has never yet been tried, in English industrial society.

### 369. Public Capitalization of the Inheritance Tax<sup>19</sup>

BY ALVIN JOHNSON

There are new burdens to be assumed, and tremendous ones, just over the present horizon of the state. Pensions for the superannuated and disabled, relief for the sick, reformation of the outcast, subsidies for indigent motherhood, conservation of child life and of the human resources we now neglect through parsimony in educational effort are among the burdens which the state will in the end be forced to assume. Whether we approve or disapprove of the state assumption of responsibilities of this nature, as dispassionate observers of historical tendencies we are compelled to admit that in

<sup>19</sup>Adapted from "Public Capitalization of the Inheritance Tax," *Journal of Political Economy*, XXII (1914), 160-80.

every modern state the party of "social reform" is making rapid headway. There is in the existing social constitution no opposing force powerful enough to prevent the ultimate realization of part, if not of the whole, of the program of the social reformers. With the new fiscal burdens that will have to be assumed, new sources of revenue must be found, or old sources must be made more fruitful. It is a realization of this situation that fixes the eye of the democracy upon the vast mass of wealth passing each year from the able hands of its accumulators to the hands of all but passive heirs. What profit shall the democracy fix for itself on death's turnover?

To Adam Smith and his immediate successors the inheritance tax presented one serious defect: it is an unthrifty tax, falling, not upon "revenue," but upon capital, and hence tends to deplete the national stock of parent wealth. If this view of the matter is valid, the progress of inheritance taxation as a source of ordinary revenue cannot be regarded as an unmixed good. Admitting, as we must, that the maintenance of the capital stock is not in itself the highest end of social policy, and that we must at times accept capital depletion as the legitimate cost of a higher good, we are yet not justified in overlooking the fact that the dissipation of accumulated capital is a social cost which should be reduced to a minimum, so far as this is possible. This point, I assume, scarcely needs argument, as the social-economic value of thrift is one of the best-established values of economic theory.

The inheritance tax rests upon the entire mass of wealth, including that which originates in unearned increment as well as that which originates in saving. But the state does not take from a given inheritance proportionate shares of the lands, reproducible goods, franchises, and other privileges that compose it. The public authority demands money, and this is drawn, in one way or another, from liquid capital. The whole of the inheritance tax, then, is paid out of the fund of fluid, mobile capital, which is the sole financial basis of the goods which conserve or increase our productive equipment—the fund of which it may properly be said that it originates in saving.

With rates of inheritance taxation so light and accumulations so large as they are in most of our states, the tendency of such taxes to trench upon accumulated capital may be almost negligible. But it would be hazardous to assume that accumulation in the United States can continue indefinitely at the present rate. Our large savings from income may be explained, in part at least, by economic conditions which are manifestly transitory. Our working class, recently transplanted from a less fertile economic field, secure incomes in excess of their accustomed needs, and accordingly have a surplus

for accumulation. Our men of wealth, newly enriched, have not, as a class, acquired the art of luxurious consumption. Their incomes outrun their expenditures, and the surplus accumulates without active effort on their part. New opportunities presented by nature or created by society have always been available and have served as an additional stimulus to thrift. One cannot gain title to a homestead, one cannot seize and exploit coal lands or street-railway franchises, without the control of funds accumulated from income. Rarely, in a rapidly developing economic state, is it possible for an entrepreneur to draw from pre-existing funds all the capital requisite to a full exploitation of his opportunities. He must supplement the funds which he already owns and those which he can borrow with funds saved from his current income, if he is unwilling to forego many chances of great profit. "Unearned increment" thus serves as a premium upon thrift.

As our economic conditions become more settled the unearned increment loses much of its potency as a stimulus to thrift. Furthermore, our laborers are raising their standards of living and our capitalists are learning the ways of a society which knows how to spend its income. How soon the rate of accumulation will begin to decline, and how rapid the decline will be, we need not attempt to predict. For our present purpose it is sufficient to point out that a tax rate which would today absorb 20 per cent of our annual accumulations would absorb a much larger percentage of the annual accumulations of, say, 1964.

Granted, then, that the evil of unthrift inheritance taxes is negligible at the present time, when the taxes are light and the rate of accumulation is high. Such taxes, nevertheless, are destined to become heavier and the rate of accumulation is destined to become less. The evil, obviously, is one which has the capacity of growing into importance.

If the inheritance tax is indeed affected with the vice of unthrift and if the defect may lead to such serious consequences as have been indicated, it might be thought to be a part of wisdom to abandon the tax altogether, or to restrict it to so narrow a range that its power of destroying accumulated capital would be negligible. To propose such a restriction of the tax, however, would be idle, in view of the powerful social and political forces to which its development responds. Economists may urge the necessity of capital conservation, but the democracy will be slow to recognize such necessity, so long as the alternative to a policy of public dissipation of capital is the perpetuation of vast private estates. Must we accept this alternative? There seems to be no good reason why we should. There is nothing in the



nature of the state which requires it to assume the rôle of a prodigal heir who squanders his inheritance upon current needs instead of administering it prudently with a view to its future increase. The state can adopt the same policy which every prudent person recommends to the private heir. It can treat capital acquired through inheritance as a fund to be maintained intact. Let the state set apart, as a permanent investment fund, the proceeds of all inheritance taxes, and depletion of the natural capital will at once cease.

The public capitalization of the inheritance tax would tend to conserve the national stock of productive wealth. It is a policy that would encounter no insuperable administrative difficulties; it would not seriously prejudice the interests of the private investor. Politically and socially such a policy, if it has potentialities for evil, would appear to have far greater potentialities for good.

There is manifestly nothing revolutionary in principle in a capital fund owned and managed by the state for the benefit of a particular public service. Public and semi-public endowment funds now in existence in this country amount, in the aggregate, to an imposing sum. We are living in an epoch in which the funded endowment is employed with growing frequency. There is an increasing reluctance on the part of private donors to contribute funds merely for current expenditures; there is an increasing tendency on the part of public and semi-public institutions to transform extraordinary current receipts into permanent endowment. Not on principle, then, can a plan of the permanent endowment of a public service be treated as revolutionary. If there is anything revolutionary in the plan, it must consist solely in the magnitude of the operations that it would entail.

Defenders of an economic system based upon the principle of private property must admit that at two points their position is decidedly weak: the private enjoyment of funded income, and the private burden upon the worker of mischances against which it is impossible for him to make provision. The private recipient of an absolutely secure funded income is freed from the necessity of exercising the skill and foresight which serve, in general, as an ethical basis for the defense of private property. The active manager of an industrial capital finds his position morally weakened by the fact that his property income is assimilated, in the social consciousness, to that of the functionless "remittance man." However much we may approve of the policy of throwing upon each able-bodied man the responsibility for finding means of self-support, we must admit that hundreds of thousands of our workingmen are exposed to chances against which they can make no adequate provision. For hundreds and thousands of our city workers, the only escape from

an indigent old age is premature death. For hundreds of thousands of families, the death of the chief breadwinner means the maiming of children's lives almost past recovery. A system which permits such evils is surely not free from moral weakness. Now, the general tendency of the policy which I propose is to divert to the state part of the funded income of society from the private recipients in whose hands it subserves no useful purpose, and to charge upon it precisely those burdens by which the weak are now crushed. Not by the rough method of expropriation, however, but by a method which is legal as well as ethical, and which entails no sacrifice of the future to present gain. The public capitalization of inheritance taxes would result in an accumulation of funds which would be gradual, and it would hence leave opportunity for the development of efficient means of administration. Under this plan public accumulations would constantly increase; but their increase could never become so great as to restrict the field of private property unless private accumulations should come to a standstill and opportunities for private exploitation should fail.

## F. THE INCIDENCE OF TAXATION

### 370. The General Theory of Incidence<sup>20</sup>

BY A. W. FLUX

There is one feature connected with the selection of forms of taxation which is of very great importance. It is that the tax may be collected from one person and its pressure be really made to rest on another. This can be illustrated by taking the case of a duty on tea imported into the country. It is somewhat obvious that the importer pays the duty, but that he has no intention of bearing the burden. He expects and, speaking generally, contrives to pass on the charge to those to whom he sells, who pass it on in turn until the final resting-place of the burden of the tax is on the consumer. Some increase of the burden is, in fact, generally produced in such a course of transference from one to another. None of the dealers who advance, or become responsible for, the duty do so gratuitously, and the charges, made as a recompense for making such advances, are added to the burden which the duty imposes on the consumer. In distinguishing between the original person who pays a tax and those who finally bear the burden, it is convenient to refer to the former by speaking

<sup>20</sup>Adapted from *Economic Principles: An Introductory Study*, pp. 281-86. Published by E. P. Dutton & Co., 1905.

of the impact of the tax, to the latter by speaking of its ultimate incidence.

The incidence may or may not differ from the impact. Where it does differ, the tax is called an indirect one; where it is the same the tax is called direct, as the levy is then made directly from the person who ultimately bears the burden of the tax. The problems connected with the determination of the real incidence of various forms of taxation are among the most difficult problems of economics.

It is useful to examine generally the effect of taxation of the chief forms of income, namely, rent, interest, wages, profits. Take first the case of taxes on rent. Inasmuch as the amount of rent is not a cause of high or low price for the commodity in whose production the rent-yielding agent is employed, a tax on rent is not an influence affecting the price. If the government, for example, claims 10 per cent of rent, that fact does not influence the total of the rent or the supply of the commodity concerned. This latter is, presumably, already arranged on a basis calculated to yield a rent larger in the aggregate than either a less or greater supply would yield. If that be so, then 90 per cent of the rent is also greater for that scale of supply than that same percentage would be for any other scale, whether larger or smaller. Consequently, the incidence of such a tax is on the receivers of rents. The total rent yielded is unchanged, but the proprietors of rent-yielding property receive only 90 per cent of the amount instead of the whole. They cannot improve their position by modifying the total rent-yield, for anything which would add to it would have been a source of gain independent of the tax, and cannot, therefore, be brought into existence by the introduction of the tax. If they adopt changes lowering the total of the rent-yield, they will thereby lower their share, viz., 90 per cent of that total. Thus the burden of a tax on rent cannot be shifted.

The taxation of interest stands on a very different footing. It reduces the yield due to ownership of capital, and thus influences the supply of capital. There is reason for believing that the lowering of the net yield rendered by capital to its owner would discourage accumulation, and thus reduce the volume of the supplies of new capital. This reduction of volume would modify the marginal productivity of capital, for the application of capital to some of the less productive purposes would be restrained by the scantier volume of new supplies. Thus the marginal productivity of capital would be raised in a way which reduced the total productivity of industry. This rise of marginal productivity would correspond to a higher loan-value of capital, and thus, at any rate in part, the burden of the tax would be shifted from the owner of the capital to its users. This shifting would, in

the course of time, transfer the burdens to the consumers of the commodities in the production of which capital is employed, that is, practically remove the burden of the tax, on the revenue yielded by capital, to the consumers of goods. It is not contended that no part of the burden would remain on the owners of capital as such, or that, as consumers, they would not bear some part of the diffused burden, but that that chief part of the tax placed on owners of capital, as receivers of interest, would not permanently remain on that class of the community.

If the tax on the interest does not fall equally on the interest-yield of all kinds of capital, there will result a preferential investment of capital in forms which escape taxation, and an avoidance of taxed forms. This will tend to lower the marginal productivity of untaxed forms of capital and raise that of the taxed forms, until the net yield to the owners approaches equality. Further, if land and the revenues from land ownership remained unaffected by a tax which fell on revenues from capital, and no corresponding burden were placed on the revenues from land, land values would rise relative to capital, and the ownership of land would gain in attractiveness from the investment point of view, so long as the rise of its value had not counterbalanced the freedom from taxation of the revenues derived from it. Inasmuch as it is practically impossible to subject to equal taxation the revenues from trade capital, estimated in money, and those derived from the use of consumption capital, which are, for the most part, not estimated in that form, the effect of taxes on interest might be, in part, to encourage the creation and ownership of consumption capital rather than of trade capital.

Taxation of interest must, in practice, take the form of taxation of revenues derived from the ownership of capital, and is likely, therefore, to touch some other classes of revenue in addition to interest.

The particular class of revenue most likely to be included with interest is the remuneration for risk-taking. In so far as a reduction, in the gains derivable from undertaking the risks of industrial and other business operations, would operate to diminish the willingness of owners of capital to accept the risks, the taxation of profits would tend to divert capital and enterprise to the less risky openings for their employment. This would increase the competition in such lines and operate to reduce the general return to capital and check the rate of accumulation. The taxation of profits, therefore, except in the degree in which they proceed from monopoly, or from rent-yielding differential advantages in production, is not, in the long run, taxation the burden of which remains where it first falls. It is gradually diffused over the community as a whole.

Turning to the subject of taxes on wages, the same kind of problem is again presented. If a reduction of the net receipts of the wage-earner left unchanged the amount and quality of his work, and had no influence on the increase of numbers seeking to earn wages, the burden of the tax would rest wholly on the wage-earner. He would, in that case, give as much and receive less, that is to say, less for the use of himself and family. In general, however, the influence of such a reduction in net remuneration would be found in a reduction in efficiency of the worker. Thus the cost of his product would be raised, and some share of the tax burden thrown on other classes. The consumers of the goods would have to pay more for them, without the entire additional payment becoming available for raising the remuneration of the labor. A part of such increased cost of commodities might go to provide an addition to the laborer's wages, thus modifying the burden of the tax on the wages. In view, too, of the fact that the net remuneration of labor influences, in general, the rate of increase of the numbers of the population, a gradual modification of the supply of labor might operate, as in the case of capital, to produce the result contemplated above, namely, some increase of the rate paid for labor, thus reducing the net burden of the tax so far as the laborer is concerned, and distributing a share of it among other classes than wage-earners. In so far as the diffusion of the burden throws it on consumers as such, the wage-earning classes will not escape the burden, since they include so large a part of the consuming public. Whether they, or other classes, will be most affected will turn on what kind of commodities are most affected. If it be commodities chiefly consumed by the wealthier classes, these classes will, as consumers, bear part of the burden of a tax on wages. If it be commodities chiefly consumed by the wage-earning classes, these classes may bear as consumers part of the burden which they throw off as recipients of wages.

As in the case of interest, so also in that of wages, taxation affecting special kinds of wages only will influence the distribution of labor in the various industries, and be a cause affecting the relation of the wages in taxed and untaxed employments to each other.

### 371. The Incidence of the New Taxes<sup>21</sup>

BY DAVID FRIDAY

One of our leading financial journals has referred editorially to "those confident souls who are sure they know just how the burdens

<sup>21</sup>Adapted from "The Shifting of Taxes on Personal Incomes and Profits," *Proceedings of the National Tax Association, Seventeenth Annual Conference* (1924), pp. 306-14. Copyright, 1925.

of taxation are distributed among their fellow citizens, and which social groups have finally to pay the bill."

Anyone who has followed the tax discussions of the last five years must be impressed by the wide prevalence of the equal diffusion theory of taxation. It is not necessary to review the history of this theory in detail. It has been popular at previous periods in the world's affairs. That theory holds, briefly, that no matter where the tax is levied it is finally shifted to the consumer in higher prices. Those who put forth this simple theory do not, as a rule, feel called upon to point out how the process of shifting works. They content themselves with bold statement and with a few rough analogies. If you inject a drop of liquid into the veins of the human being at any point of the body, it will at once be carried throughout the whole system by the circulation of the blood. Economic transactions in the community are like the circulation of blood in the individual.

Those who go beyond these simple analogies hold that the present distribution of income and property is determined by natural factors which cannot be changed by law. In other words, all of the income and the profits which individuals or corporations now receive are necessary, in the sense that if any of them are reduced, people will no longer devote themselves to their present employment and activities, but will either shift to another occupation or will retire from productive activity altogether. In either case the supply of services and of products will be decreased in the lines from which productive activity is withdrawn, and prices will be raised.

Now all of this analysis seems to the careful observer, whether he be economist or business man, superficial and inaccurate. If the withdrawal from one industry is to be accomplished by shifting to another, then obviously taxes on incomes and profits which are universal cannot be evaded by this method. If the tax is levied on only one line of industry, it can easily be evaded by shifting to another, but a universal tax cannot be avoided by a decision to change one's occupation.

In the case of monopolies the price is not fixed at the point which will yield necessary profits, but is fixed at the level which yields the highest net profits to the producer. But the producer has already fixed his prices at the point where they will yield the highest net return. Any change in price will, therefore, decrease his net income and will likewise decrease the amount which remains after paying an income tax which is levied at a uniform rate. The monopolist has, then, no avenue of escape from a tax upon profits or the income from his business. Just because he is a monopolist, and because he has already fixed his prices at the point of highest net returns, he must bear the income tax as a diminution of his monopoly profits.

There are other sources of income larger than necessary, besides the existence of monopoly. Our natural resources vary in their degree of fertility, as in the case of land, or in their degree of richness, as in the case of mines of coal, copper, iron ore, and the precious metals. They vary also in their distance from the great centers of population where their output must be marketed and used. If the richest mines and the most fertile fields were extensive enough so that the entire demand for products could be met from them alone, competition between those who owned them would keep prices at a point which covered only the necessary cost, including interest on capital and ordinary profits. But with the growth of population the supply from the richer fields and mines became inadequate. As a result, prices rose above cost of production and yielded a surplus. It was then that other sources of supply where cost of production was higher were brought into activity. As population continued to increase it was necessary to raise prices further.

The anthracite coal mines of Pennsylvania are an excellent example of the working of this principle, as are the corn lands of Iowa. It manifests itself in increasing royalties and an increment in the value of coal lands and of farm lands. Any tax which falls upon the profits of those producers who are making beyond the ordinary rate which is necessary to keep men in business remains upon the people who own the natural resources at the time at which the tax is imposed. They are not shifted to the consumer, and subsequent purchasers of the natural resources make allowance for the existence of the tax in the price which they pay. The supply of these products will, therefore, not be decreased by the imposition of a tax, and the price will not be raised to cover the tax.

Are there other differential incomes which arise neither out of monopoly, nor out of the existence of natural resources of unusual fertility or richness or location? Are there people or corporations who get incomes larger than necessary to keep them in business, despite the fact that they are subject to competition and have no natural resources of an unusual character to give them an advantage? The compilation of invested capital and of earnings of corporations made for 1917 showed earnings which varied from actual losses to 25, 50, 75, and even 100 per cent, in almost every line of manufacturing industry. In the field of banking the variation was from actual losses to profits of 75 per cent. Here there is neither monopoly nor are any natural resources involved.

Moreover, during the year 1923 the earnings of the national banks of the United States were 8.5 per cent on their capital stock and surplus. In one city of the Middle West the combined national banks

showed a loss of 18 per cent. In an industrial city of the South they showed a profit of 25 per cent.

Somehow in this complex industrial system of ours, with its variations in price, its fluctuating volume of market demand, and its ever changing technique, there are always certain to be profits which are much higher than the ordinary rate, and much higher than those which are necessary to keep men in business. Taxes which are levied as a per cent of these profits do not reduce productive activity, and therefore have no effect upon the supply of products and upon their price. In any one year there are in every industry establishments which are paying no taxes because they make no profits. The establishments sell their products in competition with others whose profits are large, and whose taxes are therefore high. Competition forces them all to sell at the same price in a competitive market.

Thus far we have been discussing taxes upon profits. What of those which are levied upon personal incomes? All taxes which are levied against individuals as such, rather than against business and its activities, have little or no effect upon the prices received by those individuals for the personal service which they render; upon the rent which they receive on their real estate, or upon the interest they receive for the use of their capital. Here again the test is whether the imposition of a tax upon wages and salaries, rents, and royalties, interest or dividends, reduces the supply of the labor which is rendered, or of the property which is put at the disposal of the public, or of the business man's activity in production.

By far the most important form of personal service in industry is labor. Wages and salaries absorb more than one-half of the total product of industry. Will the laborer work less; will he decrease the supply of the personal service which he renders, in case his taxes are increased? Certainly the common laborer and the skilled mechanic will not do so, unless the taxes are so heavy that they can be met only with a greatly increased exertion. What he does is to cut down his expenditures in other directions, or perhaps he works a little harder or a little longer. Taxes upon the manual laborer, then, normally do not tend to increase wages.

The same holds true of the professional man, who works for a salary. A lawyer, an accountant, or an engineer does not work less vigorously, because his income tax is increased. The fact that any other profession or occupation which he may enter involves the same burden of taxation eliminates the possibility of any effect of such taxes upon wages and salaries.

The services rendered by people in saving and investing capital are doubtless still further from any possibility of being lessened



through taxes, and thus raising interest rates. Variations in the rate of interest in modern industrial society depend much more upon changes in the demand for capital than upon variations in its supply. This has been especially true within the last decade.

The service which is rendered by the business man is probably more susceptible to discouragement by taxation than is that of the laborer or the capitalist. But it is very doubtful whether in America any appreciable number of business men have been induced to withdraw from industry because of high income taxes. It is certain that thus far the indexes of physical output which measure our productive activity much more accurately than any mere money figures can, show no abatement in enterprise among American business men. The year 1923 witnessed the highest level ever attained in the United States in the output of mines, manufactures, and electrical industries. The output of agriculture was maintained at practically its highest level, despite the withdrawal of a considerable number of people from that industry during the last three years.

Those people who feel certain that taxes levied upon rich persons and upon corporations are shifted to the consumer should peruse the record of profits during the last ten years. If their statements were true, it would follow as the night the day, that the profits of corporations had increased by the amount of the taxes imposed. Yet such is not the case. In 1916 there were no excess profits taxes on these corporations, while their income tax stood at the very low level of 2 per cent. Yet corporate profits of that year have only been exceeded twice since 1916. They reached their peak in 1917, not in 1919 or 1920, as is popularly supposed. In that year they stood at \$10,101,000,000. The highest point which they have ever reached since then was in 1919, at \$8,416,000,000. In 1920 the combined income of all corporations fell to \$5,873,000,000; and in 1921 to the very small sum of \$458,000,000. They increased in 1922 and again in 1923. But the figures for even the latter year will still be less than in 1916, despite the fact that the corporation income taxes of 1923 were approximately \$1,000,000,000, as against \$171,805,000, or almost exactly one-sixth of that amount in 1916. It is simply not true that the corporations have been able to shift the tax burden upon the public. The growth of net income reported by corporations between 1913 and 1923 is not proportionate to their increase in investment during the last decade. Out of that net income they were obliged to pay \$1,000,000,000 in taxes as against \$43,000,000, in 1913.

## G. THE SINGLE TAX

## 372. The Increase in Land Values

a) *Land Values in the Fifteenth Century*<sup>22</sup>

BY TIEROLD ROGERS

During the fifteenth century, notwithstanding the difficulties and losses of the landowner, the value of land rose rapidly. In the fourteenth century it was constantly obtained for ten years' purchase, the amount of land in the market being probably so abundant, and the competition for its purchase so slight, that it easily changed hands at such a rate. Land was valued at twenty years' purchase in the middle of the fifteenth century.

b) *Rents in the Sixteenth Century*

BY HUGH LATIMER

Land which went heretofore for twenty or forty pounds a year now is lent for fifty or a hundred. My father was a yeoman, and had no lands of his own, he had a farm at a rent of three or four pounds by the year at the uttermost; and thereupon he tilled so much as kept half-a-dozen men. He had walk for a hundred sheep, and my mother milked thirty kine. He kept me to school; he married my sisters with five pounds apiece, so that he brought them up in godliness and fear of God. And all this he did of the same farm where he that now hath it payeth sixteen pounds rent or more by the year, and is not able to do anything for his prince, for himself, nor for his children, nor to give a cup of drink to the poor.

c) *The Power of Landlords*<sup>23</sup>

BY THOMAS SPENCE

And any one of them [the landlords] still can, by laws of their own making, oblige every living creature to remove off his property; so, of consequence, were all the landholders to be of one mind, and determine to take their own properties into their own hands, all the rest of mankind might go to heaven if they would, for there would be no place found for them here. Thus men may not live in any

<sup>22</sup>Adapted from *Six Centuries of Work and Wages*, p. 287.

<sup>23</sup>From a lecture delivered before the Philosophical Society of Newcastle in 1775. Quoted in Wallace, *Studies Scientific and Social*, II, 435.

part of this world, not even where they are born, but as strangers, and by the permission of the pretender to the property thereof.

*d) The Influence of Rent on Trade and Commerce<sup>24</sup>*

What are the circumstances under which manufacturing industry is carried on in this country in respect of the use of land? With the falling in of leases so much higher a ground rent is charged that even with an increase of business there is less profit. Not only in London does the amount paid for the occupation of ground bear a higher proportion to the profits of trade than it formerly did, but in Birmingham too, where trade prices have been lowered, profits reduced, and wages are less, and where there are large numbers of persons vainly seeking employment, the price which has to be paid for the use of land has increased. The evidence on this point from Sheffield, again, was of the clearest; and it was shown that in Jarrow, which the shipbuilding industry may be said to have created, the landowners draw from the earnings of the industrial classes an immense income in consideration of the occupation of ground the improvement in the value of which is in no way attributable to them. And so of other places. As in the agricultural and mining districts so in the industrial and manufacturing centers, the amounts which have to be paid for the use of land constitute a burden upon industry which is constantly becoming heavier, both absolutely and relatively. It thus appears that over the entire country there is a cause at work—general, permanent, and far-reaching—affecting every branch of industry, in mine, and farm, and factory, the effects of which are traceable in the languishing condition of the agricultural, and the mining, and the manufacturing interests. That cause is the fact that under the existing land system the owners of the soil are able to obtain, and to exact, so large a proportion of the proceeds of the industry of the United Kingdom that the remainder is insufficient to secure adequate remuneration to the industrial classes, either in the shape of wages to operatives or reasonable profit to the organizers of labor, the employers, or capitalists.

*e) A Land Boom in Iowa*

BY ALFRED RUSSEL WALLACE

I stayed some time in a growing city in Iowa, called Sioux City, which has a population of 20,000. They were having what is called a land boom—every city tries its best to have one—we should call it a land fever; and the consequence was that land which sold at \$50

<sup>24</sup>Adapted from *Special Report of the Royal Commission on the Depression in Trade and Industry* (1885).

an acre three years ago was selling at \$750. It was 2 miles from the city and it was sold with the idea that the city would soon stretch out, and reach it. In the residential suburbs the price obtained was \$22,000 an acre, and in the center of the city it was \$200,000 an acre. In the town of Salina, in Kansas, with a population of only 8,000, land in the suburbs is now selling at \$22,000 an acre, and in the center of the town at \$150,000 an acre. Here also they have had a boom, and land has doubled in value in a few months.

f) *The Social Importance of Rent*<sup>25</sup>

BY ALFRED RUSSEL WALLACE

Rent is the equalizer of opportunities, the means of giving fair play to all cultivators of the soil in the struggle for existence. Farms differ greatly in value because of differences in fertility and differences in location as regards the market. The owner of a very fertile farm near the railroad has quite an advantage over one whose farm is less fertile and far removed from the main lines of communication. It is just the same with shops and stores. The business done, other things being equal, will depend upon the location. Now prices are fixed by the competition of the whole of the stores or farms. Because of the strength of the more favored class, were there no rents, the less favored class would be driven out and the whole business absorbed by their more fortunate rivals. But if all these shops belong to landlords, whether private individuals or municipalities, then rents will be so much higher in one case than in the other as to equalize the opportunities of both. Both will then be able to earn a living for a time, and the ultimate superior success of either will be a matter of business capacity. The competition between them will be fair and equal.

The same thing happens with rival manufacturers. Facilities for getting raw materials, cheapness of power, enable one to undersell another, and ultimately to drive him out of the market, unless the former is subjected to an increased rent, to compensate for his advantage of position.

g) *The Benefits of Improvement*<sup>26</sup>

BY ADOLPH WAGNER

The great expenditure of the state out of the resources of the entire population, and with the increasing population, for the most

<sup>25</sup>Adapted from "The Social Quagmire and the Way Out of It," *Studies Scientific and Social*, II (1900), 404-5.

<sup>26</sup>Adapted from *Grundlegung der politischen Ökonomie* (1892), pp. 658-59.

part out of the resources of those who do not own land, for street sanitation, education, etc., has ultimately the tendency to increase the height of rent and the value of property in urban lands and buildings, because the increase in the urban population is thereby favored. In such cases the urban landowner profits doubly, and the landless population pays in taxes the money for expenditure which indirectly leads to a new increase in rents, thus suffering in two ways.

### 373. The Social Injustice of Rent<sup>27</sup>

BY HENRY GEORGE

The coal and iron fields of Pennsylvania, that today are worth enormous sums, were fifty years ago valueless. What is the efficient cause of the difference? Simply the difference in population. The coal and iron beds of Wyoming and Montana, which today are valueless, will in fifty years from now be worth millions on millions simply because in the meantime population will have greatly increased.

The man who sets out from the eastern seaboard in search of the margin of cultivation, where he may obtain land without paying rent, must, like the man who swam a river to get a drink, pass for long distances through half-tilled farms, and traverse vast areas of virgin soil, before he reaches the point where land can be free of rent. He is forced so much farther than he otherwise need have gone by the speculation which is holding these unused lands in expectation of increased value in the future.

That land speculation is the cause of industrial depression is clearly evident. In each period of industrial activity land values have steadily risen, culminating in speculation which carried them in great jumps. This has been invariably followed by a partial cessation of production accompanied by a commercial crash; and then has succeeded a period of comparative stagnation, during which again the equilibrium has been slowly established, and the same round has been run again.

Land can yield no wealth without the application of labor; labor can produce no wealth without land. These are the two equally necessary factors of production. Yet to say that they are equally necessary is not to say that in the making of contracts as to distribution, the possessors of the two meet on equal terms. For the nature of the two factors is very different. Land is a natural element; the human being must have his stomach filled every few hours. Land can exist without labor; but labor cannot exist without land. Land can lie

<sup>27</sup>Adapted from *Progress and Poverty* (1879), Book IV, chaps. ii, iv, and Book V, chap. i; and *The Land Question* (1881), p. 62.

idle for years, and it will eat nothing. But the laborer and his family must eat every day. And so in the making of terms between them the landlord has an immense advantage. And, further than this, as population increases, as the competition for the use of land becomes more and more intense, so are the owners of land enabled to get for the use of their land a larger and larger part of the wealth which labor exerted upon it produces. That is to say, the value of land steadily rises. This steady rise brings about confident expectations of future rises of value, which produces among landowners all the effects of a monopoly to hold for higher prices. Thus there is a constant tendency to force mere laborers to take less and less or to give more and more of the products of their work for the opportunity to work. In course of time, in any society, some of the people are able to take and enjoy a superabundance of all the fruits of labor without doing any labor at all, while others are forced to work the livelong day for a pitiful living.

#### 374. The Theoretical Basis of the Single Tax<sup>28</sup>

BY C. B. FILLEBROWN

The argument in favor of the single tax may be put briefly as follows: The three economic legs necessary and sufficient whercupon the single tax stool may firmly stand are found in three generic peculiarities quite exceptional in their nature, which distinguish land from man-made products. The failure to recognize this distinction is sufficient to account for the crookedness of the present system of taxation. These three attributes, firmly grounded in orthodox economics, are as follows: (a) The site value of land is a social product. (b) A land tax cannot be shifted. (c) The selling value of land is an untaxed value. These three fundamentals are worthy of brief separate consideration.

First in order is that land value is a social product, that it is created principally by the community through its activities, industries, and expenditures. The value of land is based upon economic rent, "what land is worth for use." Strictly speaking, this worth for use attaches itself not only to the ground but to scores of things exterior to it and through it made available for use. In practice the term "land" is erroneously used to include destructible elements which require constant replacement; but these form no part of the economic advantage of situation. Ground rent may be said to result from at least three distinct causes, all of which are connected with aggregated

<sup>28</sup>Adapted from *The A-B-C of Taxation*, pp. 155-63. Copyright by the author, 1909.

social, as distinct from individual, activity: (1) public expenditure; (2) quasi-public expenditure; (3) private expenditure. Thus their very nature and origin would seem to point to land values as peculiarly fitted to bear justly the burden of taxation.

Second in order is the fundamental fact that a tax upon ground rent cannot be shifted upon the tenant in increased rent. Ground rent is determined, not by taxation, but by demand. Ground rent is the gross income, a tax is a charge upon this income. A tax may be conceived of as a lien upon land held by the state. It affects the relations between owner and state; it has no bearing upon the relations between owner and tenant. Tax is simply the name of the gross ground rent which is taken by the state in taxation, the other part going to the owner. The greater the tax the smaller the net rent to the owner and vice versa. Ground rent is "all that the traffic will bear." The owner gets all he can for the use of his land whether the tax be light or heavy. Putting more tax upon land will not make it worth more for use.

Third is the necessary corollary that the selling value of land is an untaxed value, a proposition which has not been seriously questioned by economists. Every purchaser of a piece of property knows without argument that he is governed as to the price he will pay, not by the gross income, but by the net income that will remain to him after all charges and incumbrances have been discharged. Land-owners who invest today are entirely exempt from taxation. It is in the very nature of things that the burden of a land tax cannot be made to survive a change of ownership.

If it is admittedly wrong that present land values should be untaxed, how can such fiscal wrong best be righted? Begin at once a transfer of taxes from improvements to land, so gradual that two old injustices will cease for every new one that is begun, until this untaxed value is made to bear at least its proportionate burden at the same rate with other things. If economists and taxation experts will quit their dead reckoning and steer their craft by the single-tax polestar, time and tide will do the rest.

### 375. A Criticism of the Single Tax<sup>29</sup>

BY CHARLES J. BULLOCK

In studying Mr. George's plan for land nationalization, the following considerations are important:

In one sense of the word, economic rent may be called an unearned income; yet it accrues mainly to people who incur the risks

<sup>29</sup>Adapted from *Introduction to the Study of Economics*, pp. 454-56. Copyright by Silver, Burdett & Co., 1908.

of investing in land, and cannot be secured without the exercise of foresight. Now, Mr. George assumes that such investors never lose, but always gain. This is far from true. At present, investors run the risk of loss when they purchase land and improve it. This risk is counterbalanced by the prospect of an increase in economic rent. Mr. George would have the state appropriate all such increment of economic rent, while investors would bear all the losses on improvements that should become unprofitable on account of changes in the direction of the growth of the community. The late President Walker said, justly, "Heads I win, tails you lose, is not a game at which the state can, in fairness or decency, play a part." If the state takes from an investor all increments of rent due to social causes, it should guarantee him from losses on capital invested in improvements, provided that those losses result from social causes over which he has no control.

As a revenue measure, the single tax would often prove a disappointment. In England, for instance, the rents of practically all agricultural lands have steadily fallen for more than twenty years.

If the English government had bought out all owners of agricultural lands at the time when the Land Tenure Reform Association proposed such a course, it would have made a decidedly bad investment. In many states of our Union the same thing is true of agricultural rents, while it has occurred repeatedly in cities.

We must admit that a large unearned increment of ground rents is secured by the owners of specially favored lots. No one would question the justice of imposing a part of the burden of taxation upon such an income; but we should not forget that there are other unearned incomes besides those secured from some pieces of land. When a monopoly of any sort develops an unusually profitable field of investment, part of the monopoly profits are an unearned income, and should be taxed also. As a simple matter of fact, all those persons who have the good fortune to be favorably affected by each actual turn of social development are likely to receive unearned incomes. It is just to tax all of these incomes whenever they can be reached with certainty; but to tax them all away is quite a different matter. Finally, in the United States, there are practically no restrictions upon the purchase or sale of land. Any unearned increment is likely to be distributed quite widely, because landownership is widely extended.

Mr. George's plan of confiscating the value of land without compensating present owners does not appeal to the conscience of the average American as just. Society has allowed private landownership in this country ever since English settlement. The present owners have invested in land in good faith. If it should be decided



inexpedient to continue our present system, the burden of the change should not be thrown upon the single class of landowners.

### 376. *Omnia ex Terra*<sup>80</sup>

BY FRANÇOIS M. A. VOLTAIRE

"I am happy to make known to the universe that I have a piece of land which would be worth 40 crowns a year net but for the taxes.

There appeared several edicts of a few persons who, finding themselves at leisure, govern the State from their fireside. The preamble of these edicts ran that the legislative and executive power is born by divine right co-proprietor of my land, and that I owe it at least the half of what I eat. The enormity of the maw of the legislative and executive power made me cross myself earnestly. What if this power, which presides over the essential order of societies, were to have all my land, which would be still more divine than ever!

Monsieur the comptroller-general knows that I only used to pay 12 livres in all, that it was a very heavy burden for me, and that I should have succumbed if God had not given me the genius to make wicker baskets, which helped me to support my poverty. How then can I all at once give the king 20 crowns?

The new ministers said also in their preambles that only land ought to be taxed, because everything comes from the land, even the rain, and that consequently there are only the fruits of the earth which owe taxes.

One of their bailiffs came to me in the last war; he demanded of me for my quota three bushels of corn and a sack of beans, the whole worth twenty crowns, to maintain the war which they were carrying on—the reason of which I have never known, having heard merely that in this war my country had nothing to gain and much to lose. As I had then neither corn nor beans nor money, the legislative and executive power had me dragged off to gaol and they carried on the war as best they could.

Coming out of my prison with nothing but my skin on my bones, I met a plump and ruddy man in a carriage with six horses; he had six man-servants, and gave each of them in wages the double of my income. His steward, as ruddy as he, had a salary of 2,000 francs, and robbed him of 20,000 a year. His mistress cost him 40,000 crowns in six months: I had known him formerly in the time when he was less rich than I. He told me, to cheer me up, that he had 400,000 livres a year. Then you pay 200,000 to the State, said I to

<sup>80</sup>*L'homme aux quarante écus* (1767). Reprinted from Henry Higgs, *The Physiocrats*, pp. 113-16.

him, to carry on the advantageous war which we have; for I, who have only my 120 livres, have to pay half of them?

I, said he, contribute to the needs of the State? You are poking fun, my friend; I have succeeded an uncle who had gained eight millions at Cadiz and Surat; I have not an inch of land; all my property is in securities; I owe the State nothing; it is for you who are a landed gentleman to give half of your subsistence. Do you not see that if the Minister of Finance required of me some assistance for the country he would be a misguided idiot; for everything comes from the land; money and notes are only tokens of exchange; instead of staking at cards a hundred bushels of wheat, a hundred oxen, a thousand sheep, and two hundred sacks of oats, I wager piles of gold which represent these disgusting commodities. If, after putting the *impôt* unique on these commodities, they were still to ask me for money, do you not understand that they would be getting it twice over? My uncle sold at Cadiz two millions of your corn and two millions of cloth made with your wool; he gained over 100 per cent in these two affairs. You see clearly that this profit was made upon land already taxed; what my uncle bought of you for ten sous he sold for over fifty francs in Mexico; and, all expenses paid, he came back with eight millions.

You perceive of course that it would be a horrible injustice to require of him again a few oboles over the ten sous he gave you. If twenty nephews like me, whose uncles had gained, in the good time, eight millions at Mexico, Buenos Ayres, Lima, Surat, or Pondicherry, only lent the State 200,000 francs apiece in the urgent need of the country, it would produce four millions. How horrible! Pay, my friend, you who enjoy in peace a clear and net income of forty crowns, serve well your country, and come now and then to dine with my servants.

This plausible speech made me think a good deal, but did not console me much.

## XIV

### COMPREHENSIVE SCHEMES OF REFORM

"Social unrest" is not an exclusive and prized possession of Modern Industrialism. The voice of prophet, of seer, or reformer, has long been heard in the land, condemning the prodigal waste of the rich, the unjust distribution of "the common store of earthly wealth," the institutions which "create and perpetuate artificial class differences," and the "tangled scheme of human affairs" which we call life. Peculiar as are the voices condemning the society we know, they are like those of other times in demanding "a way out."

That all is not good is clearly realized by even the most stalwart of individualists. In devious ways they would guide us out of the social wilderness. One would leave "natural selection" to "eliminate the unfit," to free us from "the spawn of earth," and to make us a happier society by making us a better people. Another would substitute a large program, and a still larger spirit, of co-operation for "the sordid greed of competition" that "makes chaos of economic cosmos." The utopian dreams of co-operation, however, have recently been blighted by a cool analysis which shows that its promises are bright but not spectacular. Most prominent just now is the program of those wise in the lore of business who promise a transformed society through the magic of profit-sharing, "scientific management," and "welfare work." Give them control of technique, organization, and working conditions, and they will fill the land with plenty, the while raising labor to a pinnacle before undreamed of. Through their superimposed scheme the unwilling laborer is to be fed, clothed, housed, recreated, amused, educated, and introduced into a new paradise. If he fails to get what he wants—if industrial democracy fails of realization—he will at least get what is good for him. A supreme pre-wisdom will supplant his shortsightedness.

But the non-individualists are even more bent upon a transformation of industrial society. One program of reconstruction, a program inherent in the activity of a number of groups, rather than consciously formulated, is well under way. It is evident in the tendency toward government regulation—and even ownership—of railroads and capitalistic monopolies; in the proposal to choose our own population by a regulation of births and of immigration; in the attempt through state action to eliminate economic insecurity; in the growth of a spirit of group solidarity so apparent in unionism; in a formal modification of the "fundamental" institutions of society, and informal change through taxation and social convention. The extent to which this program will be realized—and whither it is tending—only the future can reveal.

A more drastic program, springing from a similar philosophy, is presented in socialism. Its strength lies partly in the "righteous indictment" which it can make against the "capitalistic organization of society," and partly in the sublime faith which the classes to which it appeals have in the efficacy of elaborate social machinery to eliminate social evils. The analysis of society made by most of its advocates is immediate, and loses sight of several "long-time" considerations, such as control of numbers and the accumulation of capital. Socialism, however, is losing its militancy. As its numbers increase, it is less and less disposed to "see red." In its latest manifestations it has become conventionally "respectable." It is hard to distinguish between the "evolutionary socialist" of today and the out-and-out progressive. The radical members are leaving the ranks of socialism to fight for "something worth while" with the syndicalists and "the revolutionary unionists." To find the radical spirit of protest we must turn to these latter organizations.

Meanwhile the war has been none too kind to "state socialism." An early English economist is reported to have said (there is no authentic written word) that he preferred to leave control to a God whose very existence he doubted rather than to men whom he knew well enough to call friends. Something of this disbelief in man is shared by those who discovered during the war that the agency of control so glibly referred to as "the government" is a many-headed personality, and that the persons are supplied in very different degrees with facts, knowledge of the industrial system, and straightforward purpose. The result is that the antithesis between centralization and initiative, flexibility, and enterprise is clearer to many more minds than once it was. This finds its reflection in the increasing prominence of "guild socialism" and the appeal of its ideas of decentralization and fear of bureaucracy to those who accept socialist ends.

It is impossible to predict the future of socialist doctrine. As our scheme of arrangements has changed, socialist doctrine has changed. Its early attack was upon the inadequacy of capitalistic production. The issue was later shifted to distribution. Thanks to arguments afforded by the war, its attack is once more upon production. One need not fear that socialism lacks flexibility to adapt its method and object of attack to an existing situation.

## A. THE VOICE OF SOCIAL PROTEST

### 377. Privilege and Power

#### a) *Woe to the Idle Rich*<sup>1</sup>

Woe to them that are at ease in Zion, and to them that are secure in the mountain of Samaria, the notable men of the chief of the nations, to whom the house of Israel come! Pass ye into Calneh, and see; and from thence go ye to Hamath the great; then go down to Gath of the Philistines: are they better than these kingdoms? or is their border greater than your border?—ye that put far away the evil day, and cause the seat of violence to come near; that lie upon beds of ivory, and stretch themselves upon their couches, and eat the lambs out of the flock, and the calves out of the midst of the stall; that sing idle songs to the sound of the viol; that invent for themselves instruments of music, like David; that drink wine in bowls, and anoint themselves with the chief oils; but they are not grieved for the affliction of Joseph. Therefore shall they now go captive with the first that go captive; and the revelry of them that stretched themselves shall pass away.

#### b) *The Daughters of Zion*<sup>2</sup>

Moreover Jehovah said, Because the daughters of Zion are haughty, and walk with outstretched necks and wanton eyes, walking and mincing as they go, and making a tinkling with their feet; therefore the Lord will smite with a scab the crown of the head of the daughters of Zion, and Jehovah will lay bare their secret parts. In

<sup>1</sup>Amos 6:1-7 (750 B.C.).

<sup>2</sup>Isa. 3:16-24 (750 B.C.).

that day the Lord will take away the beauty of their anklets, and the cauls, and the crescents; the pendants, and the bracelets, and the mufflers; the headtires, and the ankle chains, and the sashes, and the perfume boxes, and the amulets; the rings, and the nose jewels; the festival robes, and the mantles, and the shawls, and the satchels; the hand-mirrors, and the fine linen, and the turbans, and the veils. And it shall come to pass, that instead of sweet spices there shall be rottenness; and instead of a girdle a rope; and instead of well set hair, baldness; and instead of a robe, a girdling of sackcloth; branding instead of beauty.

c) *Why the Lords?*<sup>3</sup>

BY JOHN BALL

By what right are they whom we call lords greater folks than we? Why do they hold us in serfage? They are clothed in velvet, while we are covered with rags. They have wine and spices and fair bread; and we oat-cake and straw, and water to drink. They have leisure and fine houses; we have pain and labor, the rain and the wind in the fields. And yet it is of us and our toil that these men hold their state.

d) *Government and Inequality*<sup>4</sup>

BY SIR THOMAS MOORE

Is not that government both unjust and ungrateful that is so prodigal of its favors to those that are called gentlemen, or such others who are idle, or live either by flattery or by contriving the arts of vain pleasure, and, on the other hand, take no care of those of a meaner sort, such as ploughmen, colliers, and smiths, without whom we could not subsist? But after the public has reaped all the advantage of their service, and they come to be oppressed with age, sickness, and want, all their labors and the good they have done is forgotten, and all the recompense given them is that they are left to die in great misery. The richer sort are often endeavoring to bring the hire of laborers lower—not only by their fraudulent practices, but by the laws which they procure to be made to that effect; so that though it is a thing most unjust in itself to give such small rewards to those who deserve so well of the public, yet they have given those hardships the name and color of justice, by procuring laws to be made for regulating them.

Therefore, I must say that, as I hope for mercy, I can have no

<sup>3</sup> Quoted in Wallace, *Studies Scientific and Social*, II (1366?), 432.

<sup>4</sup> Adapted from *Utopia*, 1516 (Cassell's National Library edition), p. 17.

other notion of all the governments that I see and know than that they are a conspiracy of the rich, who, on pretense of managing the public, only pursue their private ends, and devise all the ways and arts they can find out; first, that they may, without danger, preserve all that they have so ill acquired, and then that they may engage the poor to toil and labor for them at as low rates as possible, and oppress them as much as they please.

*e) The Possibilities of Production*<sup>5</sup>

BY RICHARD JEFFREY

I verily believe that the earth in one year can produce enough food to last for thirty. Why then have we not enough? Why do people die of starvation, or lead a miserable existence on the verge of it? We have millions upon millions to toil from morning till evening just to gain a mere crust of bread? Because of the absolute lack of organization by which such labor should produce its effects, the absolute lack of distribution, the absolute lack of even the very idea that such things are possible. Nay, even to mention such things, to say that they are possible is criminal with many. Madness could hardly go further.

*f) The Beginning of It All*<sup>6</sup>

BY J. J. ROUSSEAU

The first man, who having enclosed a piece of ground, took thought to declare, "This is mine," and found people simple enough to believe him, was the real founder of civil society. How many crimes, wars, and murders, how much misery and horror would have been spared the human race if some one, tearing down the pickets and filling up the ditch, had cried to his fellows, "Beware of listening to that imposter; you are lost if you forget that the land belongs to none and its fruits to all."

*g) Equality before the Law*

BY ANATOLE FRANCE

The Law in its majestic equality forbids the rich as well as the poor to sleep under bridges, to beg in the streets, and to steal bread.

<sup>5</sup> Quoted in Wallace, *Studies Scientific and Social*, II, 490-91.

<sup>6</sup> "Discours sur l'inégalité," *Œuvres*, I (1754), 551.

## 378. "Progress and Poverty"

a) *In the Wake of Trade*<sup>7</sup>

BY OLIVER GOLDSMITH

Ye friends to truth, ye statesmen who survey  
 The rich man's joys increase, the poor's decay,  
 'Tis yours to judge how wide the limits stand  
 Between a splendid and a happy land.  
 Proud swells the tide with loads of freighted ore,  
 And shouting folly hails them from her shore;  
 Hoards even beyond the miser's wish abound,  
 And rich men flock from all the world around.  
 Yet count our gains; this wealth is but a name  
 That leaves our useful products still the same.  
 Not so the loss. The man of wealth and pride  
 Takes up a space that many poor supplied;  
 Space for his lake, his park's extended bounds,  
 Space for his horses, equipage, and hounds:  
 The robe that wraps his limbs in silken sloth  
 Hath robbed the neighboring fields of half their growth;  
 His seat, where solitary sports are seen,  
 Indignant spurns the cottage from the green:  
 Around the world each needful product flies,  
 For all the luxuries the world supplies;  
 While thus the land, adorn'd for pleasure, all  
 In barren splendour feebly waits the fall.

b) *When There Was a Frontier*<sup>8</sup>

BY J. B. MC MASTER

The year 1786 in all the states was one of unusual distress. The crops had indeed been good. In many places the yield had been great. Yet the farmers murmured, and not without cause, that their wheat and their corn were of no more use to them than so many bushels of stones; that produce rotted on their hands. That while their barns were overflowing, their pockets were empty. That when they wanted clothes for their families, they were compelled to run from village to village to find a cobbler who would take wheat for

<sup>7</sup>*The Deserted Village* (1770), ll. 265-86.<sup>8</sup>Adapted from *The History of the People of the United States*, II, 180. Copyright by D. Appleton & Co., 1885.

shoes, and a trader who would give everlasting in exchange for pumpkins. Money became scarcer and scarcer every week. In the great towns the lack of it was severely felt. But in the country places it was with difficulty that a few pistareens and coppers could be scraped together toward paying the state's quota of the interest on the national debt.

A few summed up their troubles in a general way, and declared the times were hard. Others protested that the times were well enough, but the people were grown extravagant and luxurious. For this, it was said, the merchants were to blame. There were too many merchants. There were too many attorneys. Money was scarce. Money was plenty. Trade was languishing. Agriculture was fallen into decay. Manufactures should be encouraged. Paper should be put out.

One shrewd observer complained that his countrymen had fallen away sadly from those simple tastes which were the life-blood of republics. It was distressing to see a thrifty farmer shaking his head and muttering that taxes were ruining him at the very moment his three daughters, who would have been much better employed at the spinning-wheel, were being taught to caper by a French dancing master. It was pitiable to see a great lazy, lounging, lubberly fellow sitting days and nights in a tippling house, working perhaps two days in a week, receiving double the wages he really earned, spending the rest of his time in riot and debauch, and, when the tax-collector came round, complaining of the hardness of the times and the want of a circulating medium. Go into any coffee-house of an evening, and you were sure to overhear some fellow exclaiming, "Such times! no money to be had! taxes high! no business doing! we shall all be broken men."

*c) Labor and Value<sup>a</sup>*

Wages should form the price of goods;  
 Yes, wages should be all;  
 Then we who work to make the goods,  
 Should justly have them all;  
 But, if their price be made of rent,  
 Tithes, taxes, profits all,  
 Then we who work to make the goods  
 Shall have just none at all.

<sup>a</sup>Quoted in the article on "Chartism," *The Dictionary of Political Economy*, from *The Poorman's Guardian*, 1831.



d) *The Poor in Manchester*<sup>10</sup>

BY FREDERICK ENGELS

The manner in which the great multitude of the poor is treated by society today is revolting. They are drawn into the large cities where they breathe a poorer atmosphere than in the country; they are relegated to districts which, by reason of the method of construction, are worse ventilated than any others; they are deprived of all means of cleanliness, of water itself, since pipes are laid only when paid for, and the rivers are so polluted that they are useless for such purposes; they are obliged to throw all offal and garbage, all dirty water, often all disgusting offal and excrement into the streets, being without other means of disposing of them. As though the vitiated atmosphere of the streets were not enough, they are penned in dozens into single rooms, they are given damp dwellings, cellar dens that are not waterproof from below, or garrets that leak from above. Their houses are so built that the clammy air cannot escape. The view from the bridge is characteristic of the whole district. At the bottom flows, or rather stagnates, the Irk, a narrow, coal-black, foul-smelling stream, full of debris and refuse, which it deposits on the shallower right bank. Everywhere heaps of debris, refuse and offal; standing pools for gutters, and a stench which alone would make it impossible for a human being in any degree civilized to live in such a district. The whole side of the Irk is built in this way, a planless, knotted chaos of houses, more or less on the verge of uninhabitableness, whose unclean interiors fully correspond with their filthy external surroundings. In truth it cannot be charged to the account of these helots of modern society if their dwellings are not more cleanly than the pigsties which are here and there to be seen among them. My description is far from black enough to convey a true impression of the filth, ruin, and uninhabitableness, the defiance of all considerations of cleanliness, ventilation, and health which characterize this district.

e) *Packington as a Residential Section*<sup>11</sup>

BY A. M. SIMONS

From the general air of hoggishness that pervades everything from the general manager's offices down to the pens beneath the

<sup>10</sup>Adapted from *The Condition of the Working Class in England in 1844* (1848), pp. 49-53.

<sup>11</sup>Adapted from *Packington*, pp. 2-19. Published by Charles H. Kerr & Co.

buildings and up to the smoke that hangs over it all, the whole thing is purely capitalistic. One's nostrils are assailed at every point by the horribly penetrating stench that pervades everything. Great volumes of smoke roll from the forest of chimneys at all hours of the day, and drift down over the helpless neighborhood like a deep black curtain that fain would hide the suffering and misery it aggravates. The foul packing-house sewage, too horribly offensive in its putrid rottenness for further exploitation even by monopolistic greed, is spewed forth in a multitude of arteries of filth into a branch of the Chicago River at one corner of the Yards, where it rises to the top and spreads out in a nameless indescribable cake of festering foulness and disease-breeding stench. On the banks of this sluiceway of nastiness are several acres of bristles scraped from the backs of innumerable hogs and spread out to allow the still clinging animal matter to rot away before they are made up into brushes. Tom Carey, now alderman of this ward, owns long rows of some of the most unhealthy houses in this deadly neighborhood. These houses have no connection with the sewers, and under some of them the accumulation of years of filth has gathered in a semi-liquid mass from two to three feet deep. Shabbily built in the first place and then subjected to years of neglect, they are veritable death-traps. A cast-iron pull with the Health Department renders him safe from any prosecution.

f) *Hallelujah on the Bum*<sup>12</sup>

"O, why don't you work Like other men do?"	"O, I like my boss— He's a good friend of mine ;
"How in hell can I work When there's no work to do?"	That's why I am starving Out in the bread-line.

*Chorus:*

"Hallelujah, I'm a bum, Hallelujah, bum again, Hallelujah, give us a handout— To revive us again."	"I can't buy a job For I ain't got the dough, So I ride in a box-car, For I'm a hobo.
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"O, why don't you save All the money you earn?"	"Whenever I get All the money I earn,
"If I did not eat I'd have money to burn.	The boss will be broke, And to work he must turn."

<sup>12</sup>*Songs of the Workers*, pp. 34. Published by the *Industrial Worker*.  
The tune is "Revive Us Again."

## 379. Expanding Wants and Social Unrest

BY A CAPE COD FISHERMAN

Yes, that's the trouble. My father wanted fifteen things. He didn't get 'em all. He got about ten, and worried considerable because he didn't get the other five. Now, I want forty things, and I get thirty, but I worry more about the ten I can't get than the old man used to about the five he couldn't get.

## B. STATE SOCIALISM

380. The Economic Failure of Capitalism<sup>18</sup>

BY J. RAMSAY MACDONALD

Commercialism is a phase in the evolution of industrial organization, and is not its final form. It arose when nations were sufficiently established to make national and international markets possible, and it created classes and interests which separated themselves from the rest of the community and which proceeded to buttress themselves behind economic monopolies, social privileges, political power. The new industrial régime supplanted feudalism when the historical work of feudalism was done and it had ceased to be useful, and proceeded to build up a method of wealth production and distribution regulated by nothing but the desire for individual success and private gain. The new power lost sight of social responsibilities and social coherence. The interests of the individual capitalist, of the class of capitalists, of the property owners, were put first, and those of the community as a whole were subordinated. It was hoped, that by the individual capitalist pursuing his own interest national well-being would be served. The error soon reaped its harvest of misery, when women and children were dragged into the factories late in the eighteenth and early in the nineteenth centuries, when people were gathered into foul industrial towns, and when only human endurance limited the length of the working day. So separate had become the interests of the nation from those of the propertied classes that the latter found profit from the degradation and deterioration of the population. It mattered not to the cotton owner of Lancashire a hundred years ago what became of the children who were working in his factories, or later on, what became of the women who took their places. When one "hand" died another "hand" was ready to step into his place, and whether his life was long or short, sad or

<sup>18</sup>*The Socialist Movement*, pp. 94-99. Copyright by Henry Holt & Co. and Williams & Norgate, 1911.

merry, the machines which he tended spun out their enormous profits, and the owner saw no reason to believe that the day of his prosperity was short.

The system certainly solved the problem of production. Under its whips and in search of its prizes, mechanical invention proceeded apace, labor was organized and its efficiency multiplied ten, twenty, an hundred fold. Statistics in proof of this live with the wonder that is in them. That twenty men in Lancashire today can make as much cotton as the whole of the old cotton-producing Lancashire put together; that 1,000 shoe operatives in Leicester can supply a quarter of a million people with four pairs of boots a year; that 120 men in a mill can grind enough flour to keep 200,000 people's wants fully supplied, seem to come from the pages of romance rather than from the sober history of industry. Commercialism has written those pages, and they are its permanent contribution to human well-being.

As time went on, however, it was seen that this wonderful system of production was quite unable to devise any mechanism of distribution which could relate rewards to deserts. Distribution was left to the stress and uncertainty of competition and the struggle of economic advantages. The law of the survival of the fittest was allowed to have absolute sway, under circumstances which deprived it of moral value. The result was that national wealth was heaped up at one end over a comparatively small number of people and lay thinned out at the other end over great masses of the population. At one end people had too much and could not spend it profitably, at the other end they had too little and never gained that mastery of things which is preliminary to well-ordered life. Moreover, even many of those who possessed held their property on such precarious tenure that possession gave them little security and peace of mind. Prosperity was intermittent both for capital and labor.

Then conscious effort to rectify the chaos began to show itself. The national will protected the national interests through factory and labor legislation, and at the same time the chaos within the system was being modified by the life of the system itself. Competition worked itself out in certain directions and co-operation in the form of trusts came to take its place, as nature turns to hide up the traces of war in a country that has been fought over. This new organization is more economical and may steady to some extent the demand for labor; but it means that economic power is being placed in the hands of a few. That is too dangerous in the eyes of the Socialist. Its operation is too uncertain. From his very nature the monopolist is

an exploiter. He grasps the sceptre of state, as well as the sceptre of industry. He sits in Parliament as well as in the counting-house. He becomes a powerful citizen as well as a masterful captain of industry. He raises in a most acute form the problem of how the community can protect itself against interests being created round its exploitation and enslavement. Competition solves its own problems and leaves those of monopoly in their place.

Surveying the same field with an eye on the moral fruits which it has borne, the Socialist once more discovers weeds in plenty. The familiar methods of adulteration and of all forms of sharp dealing, both with work-people and with customers, pass before his eyes in disquieting masses. Honesty on this field is not the best policy. Materialist motives predominate. Birth and honor bow to wealth. Wealth can do anything in "good" society today—even to the purchase of wives as in a slave market. A person may be vulgar, may be uncultured, may be coarse and altogether displeasing in mind and manner but, if he has money, the doors of honor are thrown open to him, the places of honor are reserved for his occupation. The struggle for life carried on under the conditions of commercialism means the survival of sharp wits and acquisitive qualities. The pushful energy which brings ledger successes survives as the "fittest" under commercialism. Capitalism has created a rough and illworking mechanism of industry and a low standard of value based upon nothing but industrial considerations, and it has done its best to hand over both public and private values to be measured by this standard and to be produced by this mechanism.

But the controlling influences which have been brought to bear upon it—both those of a political character from without and those of an industrial character from within—are the foreshadowings of a new system of organization. Commercialism lays its own cuckoo egg in its nest. Every epoch produces the thought and the ideals which end itself. Like a dissolving view on a screen, commercialism fades away and the image of Socialism comes out in clearer outline.

### 381. The Central Aim of Socialism<sup>14</sup>

BY THOMAS KIRKUP

The central aim of socialism is to terminate the divorce of the workers from the natural sources of subsistence and of culture. The socialist theory is based on the historical assertion that the course of social evolution for centuries has gradually been to exclude the pro-

<sup>14</sup>Adapted from *A History of Socialism*, pp. 8-12. Copyright by Charles Scribner's Sons, 1900.

ducing classes from the possession of land and capital, and to establish a new subjection, the subjection of workers who have nothing to depend on but precarious wage-labor. Socialists maintain that the present system leads inevitably to social and economic anarchy, to the degradation of the working man and his family, to the growth of vice and idleness among the wealthy classes and their dependents, to bad and inartistic workmanship, to insecurity, waste, and starvation; and that it is tending more and more to separate society into two classes, wealthy millionaires confronted with an enormous mass of proletarians, the issue out of which must either be socialism or social ruin. To avoid all these evils and to secure a more equitable distribution of the means and appliances of happiness, socialists propose that land and capital, which are the requisites of labor and the sources of all wealth and culture, should be placed under social ownership and control.

In thus maintaining that society should assume the management of industry and secure an equitable distribution of its fruits, socialists are agreed; but on the most important points of details they differ very greatly. They differ as to the form society will take in carrying out the socialist program, as to the relation of local bodies to the central government, and whether there is to be any central government, or any government at all in the ordinary sense of the word, as to the influence of the national idea in the society of the future, etc. They differ also as to what should be regarded as an "equitable" system of distribution.

Still, it should be insisted that the basis of socialism is economic, involving a fundamental change in the relation of labor to land and capital—a change which will largely affect production, and will entirely revolutionize the existing system of distribution. But, while its basis is economic, socialism implies and carries with it a change in the political, ethical, technical and artistic arrangements and institutions of society, which would constitute a revolution greater than has ever taken place in human history, greater than the transition from the ancient to the mediaeval world, or from the latter to the existing order of society.

In the first place, such a change generally assumes as its political complement the most thoroughly democratic organization of society. Socialism, in fact, claims to be the economic complement of democracy, maintaining that without a fundamental economic change political privilege has neither meaning nor value.

In the second place, socialism naturally goes with an unselfish or altruistic system of ethics. The most characteristic feature of the

old societies was the exploitation of the weak by the strong under the systems of slavery, serfdom, and wage-labor. Under the socialistic régime it is the privilege and duty of the strong and talented to use their superior force and richer endowments in the service of their fellow-men without distinction of class, or nation, or creed. In the third place, socialists maintain that, under their system and no other, can the highest excellence and beauty be realized in industrial production and in art; whereas under the present system beauty and thoroughness are alike sacrificed to cheapness, which is a necessity of successful competition.

Lastly, the socialists refuse to admit that individual happiness or freedom or character would be sacrificed under the social arrangements they propose. They believe that under the present system a free and harmonious development of individual capacity and happiness is possible only for the privileged minority, and that socialism alone can open up a fair opportunity for all. They believe, in short, that there is no opposition whatever between socialism and individuality rightly understood, that these two are complements the one of the other, that in socialism alone may every individual have hope of free development and a full realization of himself.

### 382. The Transition to the Socialist State<sup>18</sup>

BY O. D. SKELTON

The first problem that faces the socialist—how catch the hare—is primarily a question of tactics, but its solution largely determines the character and extent of the difficulties facing the collectivist commonwealth at the outset. Is the capitalist to be expropriated without indemnity, or to be offered compensation? The earlier hot-blooded demand for the expropriation of the robber rich without one jot of payment is now heard more rarely in the socialist camp. This attitude was consistent with the catastrophic view of social evolution, the view that the revolution would be “an affair of twenty-four lively hours, with individualism in full swing on Monday morning, a tidal wave of the insurgent proletariat on Monday afternoon, and socialism in complete working order on Tuesday.” But in these post-Darwinian days this naive expectation is untenable. With the growing admission that the new order must be established by degrees, it is seen that it would be impossible to expropriate certain capitalists and leave the rest in undisturbed possession. Further, forcible expropriation without indemnity would be impossible; even were the great

<sup>18</sup>Adapted from *Socialism: A Critical Analysis*, pp. 182-84. Copyright by Hart, Schaffner & Marx, 1911.

majority of the manufacturing proletariat won over to the policy, they could scarcely hope to overcome the determined resistance of the millions of farmers and the urban middle class.

If the other horn of the dilemma is then unanimously chosen, and the capitalists bought out at one hundred cents on the dollar, how is the condition of the poorer classes one jot improved? There will be heaped up an immense debt, a perpetual mortgage on the collective industry; rent and interest will still remain a first charge, still extract "surplus labor" from the workers. Even if collectivist management were to prove every whit as efficient as capitalistic, the surplus for division among the workers would not be increased beyond that available today. Indeed, it would be diminished. Today a great part of the revenue drawn in the shape of rent and interest is at once recapitalized, and makes possible the maintenance and extension of industry. A socialist régime could not permit the paid-off capitalists to utilize their dividends in this manner, increasing their grip on industry; they would be compelled to spend it in an orgy of consumption. All provision for capital extension would therefore have to come out of what was left of the national dividend. The last state would be worse than the first.

Recognizing this, various socialists have proposed, once the capital has been appropriated, to put on the screws by imposing income, property, and inheritance taxes which will eventually wipe out all obligations against the state. In other words, they would imitate the humanitarian youngster who thoughtfully cuts off the cat's tail an inch at a time, to save it pain. Doubtless there are, within the existing order, great possibilities of extension of such taxes for the furtherance of social reform. Possibly our withers would be unwrung if the socialistic state confiscated the multimillionaire's top hundred million by a progressive tax. But the fortunes of the multimillionaires, spectacular as they are and politically dangerous as they are, form but a small proportion of the total wealth. So soon as the tax came to threaten the confiscation of the small income as well as the great, the matter would again become one of relative physical force.

### 383. Socialism and Inequality<sup>18</sup>

BY N. G. PIERSON

Under state socialism, pure and simple, the government of the country would assume the ownership of the instruments of production. We take it that this end might be achieved in the following

<sup>18</sup>Adapted from *Principles of Economics*, II, 88-91. Copyright by Macmillan & Co., 1902.



manner. Just as at the present it already owns the postal system, just as in certain countries it already owns and works the railways, manufactures cigars and matches, so it might successively assume the ownership, and undertake the working of all factories and workshops, all means of transport, farms, fisheries, warehouses, and shops. In order to be able to form by degrees a staff of properly qualified officials, the state would have to be careful not to proceed with undue haste. Beginning with those branches of industry, in which no great experience or intelligence was required, it would have to proceed step by step in extending the sphere of its operations, and would have to be content if, at the end of sixty or a hundred years, it had succeeded in bringing the whole of production within that sphere. From this, however, it follows that the transfer would necessarily have to be effected on terms of adequate compensation to the present owners. We are now leaving questions of equity entirely out of consideration, and regarding only the economic aspects of the question. During the time when the state was engaged in appropriating the instruments of production, there should be no disturbances of a nature to occasion direct distress, and such disturbances would be inevitable where sentence of confiscation was hanging like a sword of Damocles over the head of every capitalist for a number of years. The more it became evident from experience that the danger was real and no mere bogey, the worse would things grow. People would become much less inclined to save, and much more disposed to squander. The properties which the state was to take over would ultimately have got into the most melancholy condition of decay, and habits of neglect and recklessness would have become general and would be slow to disappear.

A state, which meant to become socialist, would have to do one of two things: if it offered no full compensation, it would have to take over the whole production in a very short period of time; if, on the other hand, it meant to take over the various branches of production by degrees, it would be unable to escape the necessity of offering compensation. The former alternative would be impossible, even in such a small country as Holland. The second alternative would, therefore, have to be chosen on purely economic grounds, apart from all considerations of justice. The compensation would have to be such as would be deemed sufficient by the recipients themselves, otherwise it would fail in its object. It has been suggested that the compensation might be paid in thirty or fifty annuities. Certainly this system, like many another, could be applied; but we must clearly understand that everything which reduced the compensation would

diminish the care given to such goods as the state had not yet appropriated. And it would be of the utmost importance that this care should not be relaxed, but should continue unabated up to the very end.

It would of course be possible to create a certain inducement for the owner not to neglect his property, by providing that the number or the amount of the annual payments made by way of compensation should depend upon the state of the property at the time of its transfer to the government; it is very much to be questioned, however, whether this would prove a sufficient inducement. Everyone would compare the actual advantage that accrued from saving the expense of upkeep with the possible disadvantages of the annual payment system, and it is easy to judge what the result of the comparison would be in most cases; more especially if the payments took a form which did not commend itself to the owner, or if there were any reason to suppose that the socialist state might not fulfill its obligations.

We look further into the future; sixty, or, say, a hundred years have passed; what condition of things do we see now? What has changed and what has not?

The principal survival is the inequality, the very thing that some people found most difficulty in submitting to in the past. There are no longer any merchants, shipowners, or manufacturers, there are no landowners or bankers; but, unless the annuity system of compensation has been adopted, we find, instead, a very large number of holders of government stock, so that there are as many owners of property as before. This class will remain and increase. For the socialistic state will have recognized—if not at once, then after being taught by bitter experience—that with growth of population, capital also must grow, and that it must grow even more rapidly than the population. The state will therefore have to encourage thrift by paying a certain rate of interest on all savings entrusted to its keeping. It will have to maintain the law of inheritance; for there can be no strong incentive to save, unless goods for consumption and claims in respect of debt can be handed down from one generation to another. We do not know if this is quite compatible with the socialistic system, but we do know that it is absolutely necessary, since the need for capital will always remain, no matter on what lines society may be organized.

The inequality thus remains; only certain of its causes disappear. Fortunes can no longer be accumulated in commerce or in industry, nor does increased demand for agricultural or building land tend any longer to enrich the few at the expense of the many. But

gambling on the stock exchange will *not* have disappeared. Even though the compensation should have taken the form of terminable annuities, it would be many years before all the bonds establishing their holders' claims to such annuities had disappeared, and it is probable that in a socialistic state these bonds would be subject to considerable fluctuations in the market. Even if all the annuities in the country itself were to have expired, there would still, no doubt, be bonds of other countries to speculate in. Besides, there will never be wanting things to serve as the subject of betting and gambling transactions. If any one expects that the socialistic state will be able to get rid of *these* causes of inequality, his optimism must be rather extravagant.

#### 384. Socialism and the Factors of Production<sup>17</sup>

In fervid attempts to correct the inequalities in distribution, we are very likely to overlook the social importance of production. Only what is produced can be distributed; consequently the larger the production, the greater the average distributive share. Therefore, before a scheme of social reform can win our approval, it must show either that it will not decrease production, or that the decrease will be more than balanced by gains in the distributive system. Production must not be overlooked.

The amount of the "social dividend" is contingent, among other things, upon the proportion maintained between the factors of production. The greatest steps in material progress have been associated with a decrease in the amount of labor used in proportion to the non-human elements in production. The economic importance of the Black Death lies in its decrease of the population; of the settlement of America, in its increase of natural resources; and of the industrial revolution in its increase of accumulated capital. In the "socialistic future" the state will find itself in the "stage of diminishing returns"; for the cry for socialism will remain an unheeded wail so long as "increased returns" yield abundance. Relief from the pressure of population on resources cannot be found in the utilization of new lands, for no new continent will be left for exploitation. As a result the maintenance of a high standard of living can be achieved only, either by a strict limitation of numbers, or by an increase in capital. It is necessary, therefore, to inquire what influence socialism is likely to have upon the increase or decrease of these factors of production.

To be quite fair, let us assume that socialism, once achieved, will realize the dreams of its advocates: that it will substantially

<sup>17</sup>An editorial (1915).

reduce the inequalities in the ownership of wealth, and materially increase the incomes of the classes at the bottom. Granted a temporary increase, the important question is whether these incomes can remain permanent. We have no reason for thinking that socialism will make us creatures of different passions, and that in this ideal state maids will cease to look fair to youths. The larger income will make marriage possible to many who cannot now "afford it." For others marriage will be possible at earlier ages. The result will be an increase in the birth rate. Likewise the larger incomes and the temporarily better way of living should mean for a time a decrease in the rate of infant mortality. Both causes would tend to increase the number of laborers in the next generation, to lower the margin of industry, and to establish lower rates of wages, and lower standards of living. There is no reason why this tendency should not be continued until wages and standards were as low as—or lower than—under the older system. The conditions of the "workers" would, therefore, be improved only during the transition period during which the "surplus" wealth of the "classes" was being transferred. In the end the lower classes would be no better off. The only appreciable gain would be in a larger number of souls to be saved.

But what about the increase of capital? Under our present system thrift is voluntary, not compulsory. Society relies for its capital upon the temptation to accumulation offered by private property and by inheritance and the opportunity for saving residing in the unequal distribution of income which showers upon the privileged few more than they can spend and forces large aggregates of wealth to be reinvested in the productive process. A stratifying society presents ideal conditions for the accumulation of capital. Democratic equality and rigid class distinction are alike inimical to the rapid piling up of productive wealth. However, if individual thrift proves inefficient, the socialist state is in position to substitute compulsory thrift. Let us see what use a socialistic society can make of each of these methods.

Voluntary thrift would not suffice. If no interest were offered on savings, and moral encouragement alone was used, the tangible wealth accumulated would be negligible. If interest were offered, either by a payment on bank deposits or by the sale of interest-bearing bonds, some capital would be formed. But if inheritance were not allowed, the disposition to spend would increase with advancing years, and a rather high rate of interest would be necessary to secure adequate results. If inheritance were allowed, the system would be very similar to our own. In fact these methods involve

making use of the individualistic incentives to thrift. But, without raising this question, the chief incentives to individual accumulation would be absent. The large fortunes, which are the basis of so much current accumulation, would be no longer present. Again, the emphasis which a socialistic state would place upon life in the present, together with the greater equality in station and possessions, would cause expenditure closely to approach income.

Yet, even if individual thrift were inadequate, it must be admitted that the state could compel accumulation. Under a money economy, it could accomplish this, either by placing a tax upon the income of its citizens with the object of paying for the production of capital goods, or by raising the prices of consumptive goods and using the surplus in the same way. Without a money economy, the same object could be effected by a simple distribution of men between occupations turning out "present" and "future" goods. An analogy is found in the distribution of work in military societies, where a part of the labor force is sent out to fight and a part is kept at home to supply the fighters with munitions and provisions. But *could* the state enforce accumulation? Suffrage would be democratic. Democracy is a short-sighted and wasteful institution that is too much of a luxury for any country save one with large and virgin resources. Under our system little attention is given to the necessity of conserving the supply of capital. Recall, if you can, a consideration of this question in a political speech. Socialists show little appreciation of the rôle of capital in production. They fail to appreciate the importance of keeping up its supply. It seems extremely doubtful whether a party committed to an increase of capital, attended as such an increase necessarily is by a sacrifice in immediate consumption, could survive in a socialistic state. The opposing party, promising immediate prosperity and higher incomes—of course at the expense of the future—would be almost certain to enjoy popular support. Socialism, therefore, still further threatens to lower the margin of industry, wages, and the standard of living, by failure to induce a sufficient supply of capital.

It must not be denied that these difficulties are not insuperable. The lower classes may, in course of time, learn to control their numbers. The electorate may learn that individual and immediate gain must often be sacrificed if more ultimate social good is to be achieved. It may even learn the importance of keeping up the supply of capital. But as yet these lessons have not been learned. When society attains this measure of wisdom, the problem of the "classes at the bottom" will have lost much of its importance. The severity of their distress will have disappeared. The magic of

socialism will be no longer necessary. In short, socialism is too individualistic and too short-sighted to meet our needs.

### C. SOCIALIST PROPAGANDA

#### 385. Capitalism—A Vampire System<sup>18</sup>

BY GEORGE E. LITTLEFIELD

1. Under capitalism, labor of brain and hand—human life-power—is a mere commodity. The world's workers are wage-slaves, compelled to sell time portions of themselves in the auction marts of competition to master bidders, lowering their price in the rivalry for jobs—for the opportunity to live—until it is just enough to equal the bare cost of living and reproduction—the iron law of wages.

2. Human labor, applied to natural resources, creates all value.

3. The unpaid portion of labor is surplus value or capital, with which the exploiting capitalists become masters of land, buildings, machinery, and raw material—all the means of production and distribution that labor depends upon for existence—therefore masters also of the wage-slaves.

4. The withholding of this surplus value from labor prevents the exploited workers from buying or consuming but a fraction of their full product—hence periodic over-production and consequent "hard times," ever becoming more severe and chronic, until finally the whole capitalist system must smother in its own "prosperity."

5. Capitalism is a vampire system. While it absorbs the labor and life of the competitive wage-slaves, the competing capitalist masters, preying one upon another, destroy each other until thus we have but a few monster vampires sucking the last dregs of vitality from a vastly increased proletariat, and finally comes the crisis—the sin of wageism is death—the collapse of the capitalist system. Labor unions and fake legislation for the strangling little capitalists (like the impotent railroad-control law) may palliate and prolong the present agony for a brief time, but the end is fatally doomed as is the diseased person who will not cut out his life-absorbing cancer. The huge modern plutocratic parasites, inflated with interest, rent, and profits, must finally expire with the death of what they feed upon—wageism. So the vampire patricians of ancient Rome sapped the plebeian and slave basis of their economic system and the empire fell in 476.

6. No system of civilization can advance or live when a feasting, reveling class drinks from the toilers' veins while riding on their backs. The knell of its own death is now being rung by capitalism.

<sup>18</sup>From *Capitalism to Socialism*, Flashlight Number 7, 1905.

which hypocritizes religion; perverts morality; makes the law unjust; prostitutes education; promotes war; corrupts politics; practices robbery, swindling, and gambling as a business; betrays friendship; sends love out street-walking and makes marriage mercenary; calls attic lodgings, slum cellars, corporation shacks, and hobo hovels "homes"; offers little children to the moloch of commercialism, and in the mad scramble for its dope incentive—dollars—materializes the rich, vulgarizes the well-to-do, and brutalizes the poor. Such is the result of the economic determinism of capitalism.

### 386. The Capitalist's Ten Commandments<sup>10</sup>

BY W. WILLIS HARRIS

I. I am Capital, thy Master, that brought thee out of the Land of Liberty into a State of Slavery. Thou shalt not become thine own Master nor have any other Master but me.

II. Thou shalt not create any wealth, nor any likeness of any wealth that is in Heaven above, or that is in Earth beneath, or that is in the waters under the Earth, unless I can make a profit out of it. Thou shalt bow thyself down under my oppression and serve me, for I, Capital, am a jealous Master and visit the poverty of the fathers upon the children unto the third and fourth generations of those that create wealth for me, and show mercy unto the thousands of sycophants that love me and help me to share the spoils of Labor.

III. Thou shalt not produce wealth for thyself, for I, Capital, will not hold him guiltless that attempts to do so in vain.

IV. Keep the Labor Days, and sanctify them; as I, Capital, have commanded thee, lest I throw thee out of employment. Four and a half days thou shalt work for me, and one and a half for thyself. But the seventh day is a rest day for labor to recoup his strength. In it thou shalt not do any work, thou, nor thy son, nor thy daughter, nor thy wife, unless they be menial servants or minister to my comforts. And remember that thou art my slave, therefore do not attempt to enjoy thyself lest thou over-exert thyself and be unable to produce a profit for me next week.

V. Honor Landlordism and Usury, my co-partners, as I, Capital, have commanded thee, that thy days may be short in the Land in which thou art born.

VI. Thou shalt commit murder for my sake only.

VII. Thou shalt give thy daughters in prostitution and thy wife in adultery to me.

<sup>10</sup>Adapted from *Progressive Thought*, II (No. 5, 1898), 13-14.

VIII. Thou shalt not steal, that being the right divine of Capital.

IX. Thou shalt bear false witness against thy neighbor—if he be a Socialist.

X. Thou shalt not desire the full products of thy labor, neither shalt thou covet the Land of thy birth, nor the stored-up wealth of past generations, nor the idleness, luxury, and privileges of the wealthy, nor anything that is in possession of the capitalist.

### 387. A Confession of Faith<sup>20</sup>

I believe in Capital, the ruler of body and mind.

I believe in Profit, His Right-hand Bower, and in Credit, His Left-hand Bower, both of which proceed from and are one with Him.

I believe in Gold and Silver, which melted in the crucible, cut up into bullion, and stamped in the mint, make their appearance in the world as coin, but, after having rolled over the earth, and being found too heavy, descends into the vaults of the Banks, and re-ascends in the shape of Paper Money.

I believe in Dividends, in 5 per cents, 4 per cents and 3 per cents, and also in smaller per cents, that are shaved from notes.

I believe in National Debts, which secure Capital against the risks of trade, industry and the fluctuations of the money market.

I believe in Private Property, the fruit of the labor of others; and I also believe in its existence from and for all time.

I believe in the necessity of Misery—the furnisher of wage-slaves, and the mother of surplus labor.

I believe in the eternity of the Wage System, which setteth the workingman free from all the cares of holding property.

I believe in the extension of the hours of work, and in the Reduction of wages; and I also believe in the adulteration of goods.

I believe in the holy dogma: "Buy Cheap, Sell Dear," and thereby in the fundamental principles of our sacrosanct Church, as revealed by professional Political Economy. Amen!

## D. GILD SOCIALISM

### 388. Profit-Making versus Industrial Freedom<sup>21</sup>

BY R. H. TAWNEY AND G. D. H. COLE

MR. TAWNEY: Why is it impossible to find any stable solution under private ownership?

<sup>20</sup>Adapted from *Progressive Thought*, II (No. 5, 1898), 14.

<sup>21</sup>From *Reports and Minutes of Evidence of the Coal Industry Commission*, II (May 2, 1919), 552, questions 13,136-13,150.



MR. COLE: I think it is because the motive of profit to individuals, which is the guiding motive of industrial organisation at present, is irreconcilable with the aspiration on the part of a great proportion of the people in industry, including many employers, managers and workers, which is an aspiration to serve the public. You cannot obey that motive of public service with the motive of profit-making.

MR. TAWNEY: That is to say, in private industry the workers tend more and more to feel that they are used as instruments of production for the convenience or profit of the individual employer?

MR. COLE: Yes, and still more that they are being used for the convenience and profit of a system. It is not the individual employer, but the system as a whole.

MR. TAWNEY: And what they aspire to is to be the servants of the public serving it directly?

MR. COLE: Yes, and serving it freely.

MR. TAWNEY: Now you pass certain interesting criticisms on some schemes of nationalisation which are put forward. You say that mere nationalisation, or mere public ownership, or public administration, although it is a condition of finding a solution, is not in itself a solution. What you suggest by way of supplement is what may be called self-government in industry, is it not?

MR. COLE: Yes.

MR. TAWNEY: And the first advantage you see in that is industrial freedom. Could you explain more fully what you mean by industrial freedom?

MR. COLE: The meaning of political freedom is fairly well understood. We understand broadly what we mean when we talk about political democracy and a man being a citizen of a free society. I do not mean that there are such societies or that men are free politically, but we understand what we mean when we talk about it. The principles which we talk about when we talk of political democracy apply just as much to the organisation of an economic system as they do to the political system. I feel that a man ought to be a free citizen in the industrial commonwealth as in the political commonwealth.

MR. TAWNEY: In what sense is he not free in industry?

MR. COLE: In the sense I tried to indicate, that the theory of the wage system is that in return for a certain amount of money he sells his labour power, and in doing that surrenders his right to control the way in which that labour power is used and the right to possess the product of his own labour. I do not mean that that works perfectly in practice, but that is the theory and the guiding principle.

MR. TAWNEY: That is to say, in so far as the power of the system is not restrained by trade unionism, the individual workman really lives at the will of a master, and his livelihood depends upon his caprice?

MR. COLE: There again it is not only the individual master but also the whole system of masters.

MR. TAWNEY: That is to say, if he is an agitator, he may be dismissed?

MR. COLE: Yes, and blacklisted.

MR. TAWNEY: He may find piece-rates arranged and rearranged for no reason which he can understand?

MR. COLE: He constantly finds piece-prices adjusted against him.

MR. TAWNEY: He may be compelled to work overtime irrespective of his health?

MR. COLE: Yes, and the weaker the trade union the more likely that that sort of oppression occurs.

MR. TAWNEY: And your view is that that kind of oppression is the cause of the revolt which is now taking place?

MR. COLE: I would not put it in that negative sense. It is one cause—the final positive cause is the aspiration of men towards freedom.

MR. TAWNEY: Supposing you could secure freedom, by which I understand you mean corporate control of men over the conditions of industry?

MR. COLE: Yes.

MR. TAWNEY: Supposing you could secure that, it would mean in effect devolving much greater responsibility upon the men?

MR. COLE: Yes, it makes much bigger demands upon the man than the present system.

MR. TAWNEY: What do you think would be the effect of that upon production?

MR. COLE: Do you mean the immediate, middle, or ultimate effect?

MR. TAWNEY: All.

MR. COLE: I think the ultimate effect would undoubtedly be entirely beneficial. I think the waste involved in the absence or any motive of service on the part of the mass of people is incredible. It is an enormous waste which we incur every day. The immediate effect I think would not be diminution in output.

389. Self-Government in Industry<sup>22</sup>

BY G. D. H. COLE

Along what lines ought the reconstruction of industry after the war to proceed? That there must be some reconstruction of industry we are all agreed; upon the lines along which reconstruction ought to proceed there is the greatest divergence of opinion. Perhaps we can best approach the criticism of the rival principles by a survey of the tendencies that are operating during the war period. I shall begin, then, with a dogmatic summary of these tendencies as they appear to me.

I. During the war labor received from the state a fuller recognition than ever before. This recognition has taken both agreeable and disagreeable forms. Labor has been consulted more than ever before, or, again, the labor leader has been called upon to assume a far greater degree of communal responsibility, and, at least in appearance, of communal power. On the other hand labor—and here I mean the actual manual workers—has been compelled to submit to rigorous limitation of its freedom of action, and to a far greater measure of state control than seemed possible before the war. Spiritually labor has both gained and lost: it has gained by the recognition of its influence and right to power; and it has lost by the inability to exercise that influence and right of power effectually. Materially, labor has once more gained and lost: it has gained because, on the whole, its earning power has increased, and because it will be difficult for wages to fall again to the pre-war level; and it has lost because the strength of trade unionism has been seriously impaired by the concessions made.

II. Capital, like labor, has received from the state a fuller recognition than ever before. From the beginning of the war the control of business men over government has increased, until now capitalist interests have to all intents and purposes a government of their own. Profits it is true have been limited, but only excess profits have been touched. Moreover, in return for these limitations, the capitalist has received both the protection of the state in his business and additional power over the workers he employs. Capitalism has become the state's accredited industrial agent, and state control has only served to strengthen the capitalist control over industry.

III. The state has intervened in industrial questions more than ever before. It has organized production and directed the productive

<sup>22</sup>Adapted from an article published in the *New Age*, January, 1917, and reprinted in *Self-Government in Industry*, pp. 322-29. Copyright by G. Bell & Sons.

energies of the nation on an unprecedented scale. Throughout, however, the action of the state has taken such forms as to leave private capitalism not only the ownership of, but the management of, industry. The Munitions Department itself employs comparatively few persons. Only as buyer and seller has it directly assumed functions previously belonging to the capitalist. It has "controlled" the railways, but the companies still manage them. It is "controlling" the mines, but the mine-owners are to "carry-on as usual." In short, its control over capitalism has not taken the form of expropriation, and has not involved any drastic change in the management of industry. Again, in relation to labor, the state has assumed large new coercive powers. But much of this power is exercised, not directly, but in the new feudal form initiated in the Insurance Act, indirectly through the employer.

IV. From the point of view of society we may sum up the industrial effects of the war as these. Private capitalism, as we knew it before the war, has suffered a shrewd blow, from which it can hardly recover. But it has been replaced by none of the alternative systems which, before the war, seemed its only serious rivals. Collectivism, or the direct control of industry by the state; syndicalism, or the control of industries by the trade-unions; and national guilds, or joint control of industry by the guilds and the state, are as far off as ever. Instead we have at any rate the beginnings of a new industrial system, properly to be called state capitalism, under which private capitalism and profiteering continue with the moral and physical support of the state.

So far we have been merely diagnosing the existing disease. Now we must turn to the future. Here again it is most convenient to divide our subject matter into two main parts—dangers and possible remedies.

a) First among the dangers is the possibility that state capitalism may be permanent, or as permanent as a stage in industrial evolution can be. The danger is the more disturbing because labor may be brought to acquiesce in the new system. The capitalists and the capitalistic state may offer labor a junior partnership in industry. If such is accepted, goodbye for a while to our hopes of ending capitalism and the wage system. Labor may also be offered higher wages, shorter hours, and better material conditions. It may even, if the capitalists are wise, be offered these things in return for little apparent concession on the labor side. It will be enough to secure the triumph of capital if labor can be drawn into the capitalistic system and converted into an upholder of that which it has hitherto menaced.

An industrial truce, probably guaranteed by the state; new and subtle schemes of profit-sharing with the trade-union instead of the individual; bogus schemes of workshop control—these are the most dangerous because the most specious proposals which may come from the capitalist side as parts of a general scheme of reconstruction. Will labor, which has never been strong in a constructive ideal of its own, have the foresight and the moral force to resist these blandishments? We cannot venture to give an optimistic reply. Only the folly of capitalism, or a new-found wisdom in the ranks of labor, it seems, can save us from the régime of state capitalism after the war.

b) Yet we must not be pessimists if we can see that there are remedies to hand, if labor can only be persuaded to adopt them. State capitalism steals the thunder of collectivists and national guildmen alike. It does not give nationalization or state ownership and administration of industry; but it gives a form of state control which the foolish will mistake for nationalization. It does not give trade-union or guild control of industry; but it does offer a sort of control to the workmen in the workshop. National guildsmen, therefore, must formulate their alternative with a view to both these problems: to state control and nationalization and to proposals for workshop control.

1. To me it seems that the whole problem of nationalization has radically altered as the result of the war. We are faced with two immediate alternatives in industry—the continuance of private ownership backed by state protection under the guise of control or nationalization. Of the two I vastly prefer nationalization. Under either system the power of the state is arrayed on the side of the wage system; but the chance of developing the guild idea among the workers seems much greater under national ownership. By it we at least secure that great step toward our ideal—unified management; and if we do not abolish profiteering, we do at least crystallize it into the form of a fixed rate of interest. At some stage, we agree, the state must assume ownership of industrial capitalism; and it appears to me that it is far better that it should assume ownership now than that it should stand openly as the protector of private capitalism. In connection with all proposals the guild demand for joint control with the state must be pressed hard. But, even without that, collectivism is to be preferred to state capitalism.

2. I now come to the question of industrial control, of which workshop control is only a part and by no means the greatest part. The guild ideal is the control of industry by the guilds acting in conjunction with the state. It is not that of joint control by employers

and employed, and such joint control cannot even be a stage in the evolution of guilds. Joint control cannot subsist between the parties when one is trying to displace the other altogether, and our ideal is nothing less than the complete displacement of capitalism. The development of trade-unionism toward the guilds must therefore take the form, not of an acceptance of joint responsibility for the conduct of industry, but of increasing interference in the control of industry. Where a whole province of industrial management can be taken bodily out of the hands of employers and transferred to the workers, well and good; that is a stage in the evolution of national guilds. But until such complete transference can take place in any sphere, the action of the trade union must remain external and to that extent irresponsible.

Let us now apply these principles to workshop control. If workshop control means the assumption by the trade-union of the responsibility for the discipline and ordering of the workshop, well and good; but if what is meant is joint control of the workshop discipline by employers and employed, ill and bad. Actual suggestions, however, seem to point less to either of these things than to the adjustment of workshop conditions and grievances. What is to be the guildsman's attitude toward such proposals? It all depends. If it is to be acceptable, the Works Committee must be not a joint committee but two committees meeting for joint consultation. The workers' side must preserve its separate character and must be linked up with the organized machinery of the trade-union movement. The Works Committee must not be so much a legislative body passing laws for the work as a meeting of the management and the trade-unionists for adjusting conditions and relations in the workshop. In fact the trade-unionists must follow the path, not of joint responsibility for industry, but of collective interference with industry. The attitude must be the same in relation to proposals for joint action between employers and employees over areas wider than the single works. The maintenance of the strength and independence of trade-unionism must be in all things the first consideration. No immediate step that seems a gain, however great, must be taken if it involves, even in the smallest degree, a sacrifice of trade-union independence and strength.

These are the main general considerations which are present to my mind in relation to labor policy after the war. If they seem too largely negative, I must answer that we cannot hope for great positive advances while the standards of organization, leadership, and intelligence in the trade-union movement remain what they are today. We can only seek such changes as will reorganize trade-unionism

internally and equip it intelligently for the task of winning control. Viewed in the light of this immediate end does the policy put forward seem so negative after all? Workshop control, if it takes the form rather of interference than of responsibility, will afford the most valuable training the workers can have for their greater task, the more they learn to intervene, and the more continuous their intervention becomes, the more they will be learning how to control. Actual control they will win only when they have learned to exercise control; and they can have no better weapon in the conflict than a fitness for victory.

There are, of course, a thousand and one subsidiary problems. I have concentrated on the problem that seems fundamental. The real issue for society is whether industry is to continue its development along the line of autocratic control from above, or whether industrial autocracy is to be displaced by the industrial democracy of national guilds.

### E. MANY ROADS TO FREEDOM

#### 390. The Colorado Plan<sup>28</sup>

1. There shall be on the part of the company and its employees a strict observance of the federal and state labor laws and of the company's rules and regulations supplementing the same.

2. The wage rate shall be kept on file by the superintendents of the several departments and shall be open to inspection by any representative or other employee upon request.

3. There shall be no discrimination by the company or by any of its employees on account of membership or non-membership in any society, fraternity, or union.

4. The right to hire and discharge, the management of the works, and the direction of the working force, shall be vested exclusively in the company, and except as expressly restricted this right shall not be abridged by anything contained herein.

5. There shall be posted in each subdivision a list of offenses for commission of which by an employee dismissal may result without notice. For other offenses employees shall not be discharged without first having been notified that a repetition of the offense will be a cause for dismissal. Nothing herein shall abridge the right of the company to relieve employees from duty because of lack of work. In relief from duty through lack of work, men with families shall, all things being equal, be given the preference.

<sup>28</sup>Adapted from Part III, "The Prevention and Adjustment of Industrial Disputes" of the *Plan of Representation of Employees of the Colorado Fuel and Iron Company in the Company's Minnequa Steel Works*, 1915.

6. Employees shall have the right to hold meetings at appropriate places on company property or elsewhere as they may desire outside of working hours or on idle days.

7. Employees shall not be obliged to trade at the company stores, but shall be at perfect liberty to purchase goods wherever they may choose.

8. Subject to the provisions hereinafter mentioned, every employee of the company shall have the right of ultimate appeal to the president of the company concerning any condition or treatment to which he may be subjected and which he may deem unfair.

9. It shall be the duty of the president's industrial representative to respond promptly to any request from employees representatives for his presence in any subdivision, and to visit all of them frequently to confer with the employees or their representatives and the superintendents respecting working and living conditions, the observance of federal and state laws, the carrying out of company regulations, and to report the result of such conference to the president.

10. Before reporting any grievance to the president, to the industrial representative, or to other of the high officers of the company, employees shall first seek to have differences on the conditions complained about adjusted by conference, in person or through their representatives, with the foreman or superintendent.

11. Employees believing themselves subjected to unfair conditions and having failed to secure adjustment through the superintendent, may present their grievances to the industrial representative, either in person or through their regularly elected representatives, and it shall be the duty of the industrial representative to look into the same immediately and seek to adjust the grievance.

12. Should the industrial representative fail with respect to any grievance, suspension, or dismissal, the aggrieved employee, either himself or through his representative, may appeal for the consideration and adjustment of his grievance to the manager, general manager, or the president of the company, in consecutive order. The right of appeal must be exercised within a period of two weeks after the same has been referred to the industrial representative.

13. Where the industrial representative or one of the higher officials fails to adjust a difference, upon request to the president by the employees' representatives of the division concerned, or upon the initiative of the president himself, the difference shall be referred to the joint committee on industrial co-operation and conciliation, and the decision of the majority of such Joint Committee shall be binding upon all parties.<sup>24</sup>

<sup>24</sup>This committee is composed of twelve members, six of the number designated by the employees' representatives on the Joint Conference and the other six by the president of the company or his representative.



14. Whenever the Joint Committee on Industrial Co-operation and Conciliation is called upon to act, except by the consent of all present, it shall not proceed with any important part of its duties unless both sides are equally represented. Where agreeable, equal representation may be effected by the withdrawal of one or more members from the side having the majority.

15. Should the Joint Committee fail to reach a majority decision as to any difference, if the majority of its members so agree the Joint Committee may select as umpire a third person who shall sit in conference with the committee and whose decision shall be binding upon all parties.

16. In the event of the Joint Committee failing to adjust a difference by a majority decision or by the selection of an umpire, if the parties so agree the matter shall within ten days be referred to arbitration. Otherwise it shall be made the subject of an investigation by the state of Colorado Industrial Commission, in accordance with the provision of the statute regulating the powers of the commission. Where a difference is referred to arbitration, one party shall be selected as arbiter if the parties can agree upon his selection. Otherwise there shall be a board of three arbitrators, one to be selected by the employees' representatives on the Joint Committee, one by the company's representatives on this committee, and a third by the two arbiters thus selected. By consent of both parties the Industrial Commission of the state of Colorado may be asked to appoint all the arbiters or to arbitrate the difference itself. The decision of the sole arbiter, or of the majority of the Board of Arbitration, or of the Industrial Commission when acting as arbiters, as the case may be, shall be final and shall be binding upon the parties.

17. To protect against the possibility of unjust treatment because of any action taken or to be taken by them on behalf of one or more of the company's employees, any employees' representative believing himself to be discriminated against for such a cause shall have the same right of appeal to the officers of the company or to the Joint Committee as is accorded every other employee of the company. Having exercised the right in the consecutive order indicated without obtaining satisfaction, for thirty days thereafter he shall have the further right of appeal to the Industrial Commission of the state of Colorado, which body shall determine whether or not discrimination has been shown, and as respects any representative demand by the commission to have been unfairly dealt with, the company shall make such reparation as the Industrial Commission shall deem just.

391. The Rationale of Co-operation<sup>28</sup>

BY EDWIN G. NOURSE

Co-operative proposals, if pushed to their logical conclusion, amount to the setting up of a new machinery for the making either of commodity prices to the consumer or of the price of labor to the worker. Being dissatisfied with the economic position in which the rank and file of the great working class find themselves after having sold their labor, or the product of their labor, in the labor or raw-materials market and having bought their subsistence goods in the commodity market, they feel that the "middlemen and masters" have developed market institutions for both labor and wares which result in an equilibration of demands and supplies upon terms favorable to the employing and trading classes but highly unfavorable to the working class. The laborer who adopts the co-operative philosophy feels that only by abolishing the wage system and putting himself in control of the process of production and market distribution can he get the full value of his labor as embodied in the consumer price. The consumer, on the other hand, feels that he pays more than the goods he purchases are "worth," properly speaking, unless he side-steps the ordinary market system and supervises the whole process, appropriating everything above the going or market price of the services and materials which enter into the production of his consumption goods. Obviously, the producer cannot achieve economic salvation on the basis of such a consumer's price, nor can the consumer take such a producer's price as the datum plane for the sort of economic organization which he is seeking. Two such systems of relativity based each upon the other would be as impossible as to have two suns in our solar system.

It is a comparatively simple matter to work out a system of production and consumption for a small co-laboring community in which satisfactions are limited to what can be produced within the group and each member gets his *n*th of the product. But perhaps the chief merit which co-operation claims over such communistic proposals is that it contemplates the maintenance of present standards of living and of productive efficiency and seeks a plan of organization suited to modern conditions of minute division of labor, extreme geographical specialization of production, and world-wide exchange. To do this, some one party to the given economic process must become the

<sup>28</sup>Adapted from "Economic Philosophy of Co-operation," *American Economic Review*, Vol. XII, No. 4, pp. 589-93. Copyright by the American Economic Association, 1922.

pivot of the organization, even at the possible sacrifice of others. The real motive which lies back of any proposal to displace the manufacturing or trading entrepreneur of the present system is that some other party to the economic process may put himself in charge and thereafter direct the system in a way which will give to his class a greater share in the benefits. The basic argument of co-operation, then, is that it has devised a new working machinery which offers the legal and technical possibility of so doing, under the direction and in the interest of either the industrial laborer or the consumer as such, or the individually organized producer of market wares, notably the farmer. The practical application of the co-operative form to each of these three purposes respectively gives rise to decidedly different situations and problems.

In the swift development of one and then another form of mechanical power and the amazing evolution of ever larger and more costly machine equipment and large-scale and complex forms of business organization and commercial and financial institutions, it has been impossible for a new principle of economic control and remuneration of a democratic type to gain a foothold in competition with the old régime, whose captains of industry and trade and finance were quick and daring, resourceful, experienced, and, as it seems, impreguably entrenched. The race has been to the swift and the battle to the strong. While craft workers may establish and run a co-operative shop successfully, the ordinary mind can hardly conceive how the co-operative system could have got a foothold in the automobile industry or in the manufacture of steel or rubber or electrical equipment. We have had co-operative stove works, printing, baking, and cooperage concerns, and a very few of them still survive. The co-operative cooper shops passed with the introduction of barrel-making machinery, and in general the process of industrial integration swallows subindustries of the scope best suited to co-operative organization and to erase or blur craft lines.

The exponent of consumer co-operation, however, asserts that even at best producer co-operation does not meet the situation, because the producer or laborer is likely to prove as prone as is the capitalist manufacturer or trader to utilize every strength and strategy of the market to force up prices in his own interest, which results in the exploitation of the consumer.

This is the prevailing cult of co-operation in England and Scotland and to a considerable extent on the Continent. Starting with the retail store, it has integrated jobbing, wholesaling, and import trade under the control of large, organized consumer groups. To supply

this trade it long ago undertook manufacture on a considerable scale, and in time added tea plantations and wheat lands abroad and milk, vegetable, and fruit farms nearer home. The consumer societies have their own steamships and banking departments. They have done a little coal-mining and are seriously considering the acquisition of extensive coal and iron resources. The extremists of this group believe that the whole economic system should be directed and controlled by the consumers, organized into co-operative societies and federations, the motivating force being always and only the community's desire for goods as expressed through their society.

Such a "co-operative commonwealth" is surely a heroic remedy for the admitted "planlessness of production" under the existing régime. It implies a regimentation of the worker's conduct which would doubtless prove highly distasteful, and would threaten the development of a bureaucracy which would be both distasteful and dangerous. It may be confidently predicted that the animosities it would provoke and the blunders it would commit would check a growth so great as really to threaten the present system of entrepreneurship. It would, in fact, pass from the realm of voluntary association to one of coercive socialism. It is frankly recognized as such by its advocates, who expect such public utilities as railways, steamships, and the telegraph, which are inherently unsuited to a co-operative adjustment of charges, to be taken over by the state, thus dividing the field between state socialism and socialism of the consumer-society pattern. "In this way the co-operative movement would become recognized as, what it in fact is, the industrial wing of the democratic state."

### 392. The Promise of Co-partnership<sup>26</sup>

BY H. VELDER

For years I have been convinced that the present industrial system has been weighed in the balance and found wanting. My efforts to understand the situation and to find a remedy have resulted in the conviction that the practical and theoretical solution is to be found in the application, in some form, of the idea of co-partnership. Progress in this direction may be perfectly evolutionary, and experiment had already carried me some considerable distance. Having satisfied myself as to the principles I wished to adopt, and the methods of organization required, I looked for and found an opportunity of testing them on a small scale. As a result I feel myself competent to

<sup>26</sup>Adapted from a pamphlet entitled *The Industrial Problem*, Hamilton, New Zealand, December, 1922.

speak concerning the business details of schemes conducted on the lines of the experiment I have tried. I was confronted, however, in the process of development with an unexpected difficulty. It is true that I was able to test my scheme of organization, but the whole structure was the creature of my will. I could give certain powers as a matter of grace, but it was my belief that no solution could be regarded as satisfactory which was not based on legal right. When I proposed to form a company with the powers I required to carry out my scheme, I was advised that such powers could not be given without new legislation. The Companies Empowering Bill, introduced by the Prime Minister and adopted as a plank in the New Zealand government program, will, when passed, give the powers which seem to me necessary in order to achieve a lasting success in co-partnership.

The Bill is designed to give encouragement and facility to those employers who wish to evolve some workable plan whereby the employees in industry may become beneficially interested in its efficient and profitable operation. The existing company legislation contemplates that the profits and control of a company shall belong wholly to those who subscribe its capital. The effect of the Empowering Bill is to amend such legislation so that provision may be made for the issue of shares in a company to those who bring to it personal service without capital contribution. Such shares constitute a means by which participation in the profits and control may be conveniently arranged.

The Bill is enabling, and is in no sense compulsory. A company may adopt the principle of "labor shares" if it so desires, or it may carry on without them. Service, as such, however, is given a status by legislation which hitherto has not been accorded to it in any part of the British Empire. It is one method by which individual employers may seek, by experiment, a solution of the problem of industrial unrest along the lines of current industrial thought.

The passing of this Bill will create a new position, and for the benefit of employers and others who may wish to inform themselves concerning the Bill and the limits of its operation, the time seems opportune to restate the principles I have advocated.

While the powers under the Bill might be used in a very small way, or to a very wide extent, I am myself convinced that halfway measures will not give the best results. It seems to me that the owners of capital, by virtue of their power, have assumed a wrong and quite unnatural position in industry. Powers are attributed to capital which it does not possess. It is even endowed with a personality, and to this personality we attribute qualities which actually belong to labor—labor of a high grade, it is true, but none the less labor. Excluding the community there are two factors in industry, and two only—labor and capital.

It is possible to assess approximately the value of capital, and we know that surplus profit (if any) is due entirely to the ability and energy exhibited by labor in using the inert and material thing, capital. The scheme I wish to adopt is to limit the reward of capital, insure it against loss, and then pay the surplus to the human element in proportion to the service rendered by every individual employed in the business. This is a reversal of the present practice under which owners of capital are the residuary legatees, but it is one of those reversals which will stand a great deal of close examination at the bar of common sense. If the argument is true in regard to profits, its validity is not less well founded in regard to control. Considering all the limitations of the human element and other factors which may be used against labor control, I am of the opinion that voting power may well be distributed evenly between the capital and labor shareholders.

In discussing the details of my scheme I have found a great difficulty in reaching common ground in approaching the problems because of the difference in interpretation of the words used. It will be convenient, therefore, before stating the principal features of my plan, to give the following definitions:

*Labor* includes every individual employed in carrying on a business, irrespective of position.

*Capital* is the contribution to the business of property measured in money value.

*Capital share* is the unit of capital contribution.

*Labor share* is the unit of service contribution.

*Profit* is the surplus product of a business, after payment of wages and all charges, including interest on capital.

The scheme which seems to give the greatest prospect of success should contain the following features, five in number. The questions raised will have to be decided in every case, and the answers I give go to the foundation of my scheme.

1. Interest on capital should be paid at the current bank rate. This, I suggest, should be determined by the mean average of the bank rate for each year, and to this should be added a risk rate calculated in proportion to the risk run. All payments for capital should be cumulative and should be a first charge against the assets after payment of wages and all costs of production.

2. After making provision for all necessary reserve accounts—a matter of vital necessity in every business—profits should be divided among the holders of labor shares according to the number of such shares held by each individual.

3. Reserve funds are the property of the labor shareholders (subject to payment of all liabilities of the business), as they are created

out of profits which otherwise would have been divided among the holders of labor shares. By making provision for Sick, Superannuation, and Unemployment Funds, labor would be carrying its own burdens, and would not, as now happens in many instances, be subject to the bounty of the employer.

4. Wages should be fixed by the directors or by the manager at a rate not less than the award or standard wage.

5. Capital shareholders should elect one-half the number of directors and labor shareholders the other half. No resolution should be carried without at least one director representing each class of shareholder having voted in favor of such resolution.

It is worth while to draw attention to the fact that in most instances the person or persons who contribute the capital, or portions of it, will also contribute the higher form of labor, viz., the use of brains for the organization and conduct of the business, without which there would be no profits for distribution among the other forms of labor.

The person contributing the highest form of labor will, therefore, on the basis of service, be entitled to the highest number of "labor shares." Where labor shares are held by capital contributors control would be exercised in a dual capacity, as a person contributing both capital and labor service would be allotted both classes of shares, and would have voting power accordingly.

The most urgent work that employers have to do at the present time is to reform the conditions of industry, and unless we are prepared to devote our energies and abilities to that end we are not acting up to our responsibilities.

Economic individualism must give way to the general interest of the community, and in the development of the team spirit lies the only real hope of a remedy for our industrial troubles.

My belief is that the methods which have proved to be so convenient for the control and distribution of the reward for capital can be applied with equally satisfactory results in the control of and distribution of the reward for the services of labor.

### 393. A Labor Program<sup>27</sup>

#### I. THE TASK OF SOCIAL RECONSTRUCTION

That the task of social reconstruction to be undertaken by the government ought to be regarded as involving, not any patchwork,

<sup>27</sup>Adapted from the resolutions adopted at a conference of the British Labor Party, 1918. The resolutions omitted refer to matters of merely local or temporary importance. These resolutions should be compared with the

jarrymandering of the anarchic individualism and profiteering of the competitive capitalism of pre-war time—the breakdown of which, even from the standpoint of productive efficiency, the war has so glaringly revealed—but the gradual building up of a new social order, based not on internecine conflict, inequality of riches, and dominion over subject races or a subject sex, but on the deliberately planned co-operation in production, distribution, and exchange, the systematic approach to a healthy equality, the widest possible participation in power, both economic and political, and the general consciousness of consent which characterize a true democracy; and, further, in order to help to realize the new social order and to give legislative effect to the labor policy on reconstruction, this conference emphasizes the necessity of having in Parliament and the country a vigorous, courageous, independent and unfettered political party.

### III. THE MAINTENANCE AND PROTECTION OF THE STANDARD OF LIFE

1. That the conference holds it of supreme national importance that there should not be any degredation of the standard of life of the population; and it insists that it is the duty of the government to see to it, that when peace comes, the standard rate of wages in all trades should, relatively to the cost of living, be fully maintained.

4. That one of the urgent needs of social reconstruction is the universal application of the principle of the protection of the standard of life, at present embodied in the factories, workshops, merchant shipping, mines, railways, shops, truck, and trade-board acts, together with the corresponding provisions of the public health, housing, education, and workmen's compensation acts; that these imperfectly drafted and piecemeal statutes admittedly require extension and amendment by new legislation, providing among other industrial reforms, for the general reduction of the working week to forty-eight hours, securing to every worker, by hand or by brain, at least the prescribed minimum of health, education, leisure, and subsistence, and that, in particular, a system of the legal basic wage needs to be extended and developed, so as to insure to every worker of either sex, in any occupation, in any part of the kingdom, as the very lowest statutory base line of

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document entitled "Labor and the New Social Order," which was prepared by a subcommittee of the party. One section of this report is presented in reading § 387 below. It seems unnecessary to reprint the whole report, since it is already available in a supplement to the issue of the *New Republic* for February 16, 1918, in Clark, Hamilton, and Moulton, *Readings in the Economics of War*, pp. 646-66, in Elisha M. Friedman, *Labor and Reconstruction in Europe*, pp. 165-85, and in *Monthly Labor Review, Bureau of Labor Statistics*, VI, 63-83.



wages (to be revised with every substantial rise in prices), not less than enough to provide all the requirements of a full development of body, mind, and character, from which the nation has no right to exclude any class or section whatever.

#### V. THE PREVENTION OF UNEMPLOYMENT

• That the conference cannot ignore the likelihood that the years immediately following the war will include periods of grave dislocation of profit-making industry, when many thousands of willing workers will, if matters are left to private capitalism, probably be walking the streets in search of employment; that it is accordingly the duty of the ministry so to arrange the next ten years' program of national and local government works and services, including housing, schools, roads, railways, canals, harbors, afforestation, reclamation, etc., as to be able to put this program in hand, at such a rate and in such districts as any temporary congestion of the labor market may require; that it is high time that the government laid aside the pretense that it has no responsibility for preventing unemployment; that now it is known that all which is required to prevent the occurrence of any widespread or lasting unemployment is that the aggregate total demand for labor should be maintained, year in and year out, at an approximately high level, and that this can be secured by nothing more revolutionary than a sensible distribution of works and services so as to keep always up to the prescribed total the aggregate public and capitalistic demand for labor, together with the prohibition of overtime in excess of the prescribed normal working day, there is no excuse for any government which allows such a grave social calamity as widespread or lasting unemployment ever to occur.

#### VI. UNEMPLOYMENT INSURANCE

That to meet the needs of individuals temporarily out of work, the labor party holds that the best provision is the out-of-work pay of a strong trade-union duly supplemented by a government subvention amounting to at least half the weekly allowance; and that for the succor of those for whom trade-union organization is not available, the state unemployment benefit, raised to an adequate sum, should be made universally applicable in all industries.<sup>7</sup>

#### VII. THE COMPLETE EMANCIPATION OF WOMEN

That the conference holds that the changes in the position of women during the war, in which they have rendered such good service, and the importance of securing to women as to men the fullest

possible opportunities for individual development, make it necessary to pay special attention in the reconstruction program to matters affecting women.

### XIII. EDUCATION

That the conference holds that the most important of all the measures of social reconstruction must be a genuine nationalization of education, which shall get rid of class distinctions and privileges, and bring effectively within the reach, not only of every boy and girl, but of every adult male citizen, all the training, physical, mental and moral, literary, technical, and artistic, of which he is capable.

The conference accordingly asks for a systematic reorganization of the whole educational system, from the nursery school to the university, on the basis of (*a*) social equality; (*b*) the provision for each age, for child, youth, and adult, of the best and most varied education of which it is capable, and with due regard to its physical welfare and development, but without any form of military training; (*c*) the educational institutions, irrespective of social class or wealth, to be planned, equipped, and staffed according to their several functions, up to the same high level for elementary, secondary, or university teaching, with regard solely to the greatest possible educational efficiency, and free maintenance of such a kind as to enable the children to derive the full benefit of the education given; and (*d*) the recognition of the teaching profession, without distinction or grade, as one of the most valuable to the community.

### XVII. RAILWAYS AND CANALS

That the conference insists upon the retention in public hands of the railways and canals, and on the expropriation of the present stockholders on equitable terms, in order to permit of the organization, in conjunction with the harbors and docks, and the posts and telegraphs, of a unified national public service of communications and transport, to be worked, unhampered by any private interest (and with a steadily increasing participation of the organized workers in the management) exclusively for the common good.

### XVIII. COAL AND IRON MINES

The conference asks that the supply of these minerals should henceforth be conducted as a public service (with a steadying increasing participation in the management of the workers concerned), for the cheapest and most regular supply to industry of its chief source of power, the retail distribution of household coal, at a fixed price, summer and winter alike, and identical at all railway stations through-

out the kingdom, being undertaken by the elected municipal district or county council for the common good.

#### XX. CONTROL OF CAPITALISTIC INDUSTRY

That the conference insists, especially in view of the rapid development of amalgamations, on the necessity of retaining after the war, and of developing the present system of organizing, controlling, and auditing the processes, profits, and prizes of capitalistic industry; that the economies of centralized purchasing of raw materials, foodstuffs, and other imports must be continued, and, therefore, the "rationing" of all establishments under a collective control; that the publicity of processes thus obtained has a valuable effect in bringing inefficient firms up to a higher level; that the "costing" of manufacturers' processes and auditing of their accounts, so as to discover the necessary cost of production, together with the authoritative limitation of prices at the factory, the wholesale warehouse, and the retail shop, affords, in industries not nationalized, the only security against the extortion of profiteering; and that it is as much the duty of the government to protect the consumer by limiting prices as it is to protect the factory operative from unhealthy conditions, or the householder from the burglar.

#### XXI. NATIONAL FINANCE

1. That, in view of the enormous debts contracted during the war, and of the necessity to lighten national financial burdens, this conference demands that an equitable system of conscription of accumulated wealth should be put into operation forthwith, with exemptions for fortunes below £1,000, and a graduated scale of rates for larger totals, believing that no system of taxation of income or profits only will yield enough to free the country from oppressive debts, and that any attempt to tax food or other necessities of life would be unjust and ruinous to the masses of the people.

2. That the only solution of the difficulties which have arisen is a system by which the necessary national income shall be derived mainly from direct taxation alike of land and accumulated wealth, and of income and profits, together with suitable import upon luxuries, and that the death duties and the taxation upon unearned incomes should be substantially increased and equitably regarded.

3. That the whole system of land taxation should be revised so that by the direct taxation of the unearned increment of land values effect should be given to the fact that the land of the nation, which has been defended by the lives and sufferings of its people, shall belong to the nation, and be used for the nation's benefit.

## XV

# THE CONTROL OF INDUSTRIAL DEVELOPMENT

Again, we must remind ourselves that it is not enough to know that our system as a whole is in process of development. Novelty and goodness are not one; the newer society because of its newness is not perforce better than the old; our world, though transformed, has not of necessity become a better world in which to live. Movement there always is; but movement may or may not mark an advance. This possible antithesis between development and progress raises perhaps the most important of all current problems, for in its terms other problems must find their "solution." Should society allow its development to take its "natural course," or should it attempt to control it?

No absolute answer can be given to so universal a question. If the natural course gives evidence of being the path we would mark out, obviously we should keep our hands off. If for such a reason *laissez faire* is deliberately chosen, paradoxical as it seem, it becomes merely a convenient instrument of control. But if the "system is going awry," what shall we do? Just as obviously we should, to the extent of our intelligence and power, attempt to control the process.

But can we control so complex and many-sided a thing as social development? Unfortunately to this question we cannot give an unqualified affirmative. Many social "forces" are beyond our ken and power; others, of which we have some knowledge, cannot be reached by any contrivances which we have yet perfected; given programs promising definite results have the perversity to produce undreamed of complications; and immediate consequences have fallen into the disagreeable habit of distracting our attention from more ultimate and important results. It seems, therefore, that the wholesale prescription of "remedies" and the amateurish tinkering with parts are likely to prove dangerous. Yet, if we are sufficiently conscious of the limitations under which we are working, we can do something toward directing the movement. We know something of the elements involved; we have had much experience that should stand us in some stead; and we have evolved some very remarkable agencies of control. If we proceed cautiously, make our programs flexible, and quickly change our procedure to meet the unexpected contingencies which are inevitable, there is reason for faith in our ability eventually to accomplish much. If we essay the task, we shall need a knowledge of the means of control, a theory of the use of these means, and a consciousness of the "end" for which they are used. Let us consider these in turn.

Even if our desires be quite modest, they will necessitate the use of numerous and varied means of control. The changes which we wish to effect may be in the structure of society, in institutions, in activities, or in values; they may call for immediate and mechanical action or they may necessitate slow and gradual adaptations; they may affect almost the whole of society or may immediately touch only a single aspect of life. For these and a myriad other uses instruments of social control are available. The state can be used to secure quick mechanical changes; the school and the church can be used slowly to effect more gradual and organic adaptations; the labor union, by sharp, incisive action, can immediately further the interest of a group; the interest of a like group may gradually be advanced by a voluntary association using more peaceful methods; press and public opinion can reach a large part of society; occupational associations and codes of ethics can exercise

a control over particular groups; and convention and tradition through their prohibitions and inhibitions, can effectively direct the lives and activities of the individuals. Each of these agencies in its own way can be used to make the "system" somewhat different. Because of the multiplicity, variety, and efficiency of these agencies—despite the gravity of our ignorance—we could not escape social control if we would.

Our theory of the use of these "forces" has been very gradually built up, and as yet is far from complete. During most of the nineteenth century, when "the country was in a stage of increasing returns," when self-reliance was dominant, and when men dared not meddle with the rising machine-system which they very imperfectly understood, the dominant theory was that of laissez-faire. This theory overlooked entirely the influence exerted by agencies other than the state, as well as a large number of active functions performed by government, such as the protection of property and the maintenance of contract. At present the hold of individualistic theory is weakening. The frontier is gone; we are confronted by the grave problems of a mature society; we are less prone to attribute success or failure to personal merit or demerit; and we talk of "social conditions" and "inequality of opportunity." All of this inclines us to depend more upon authority, and threatens a radical extension and state activity. But there are potent checks upon this attitude. The interpretation of our constitution still proceeds from individualistic assumptions; the pecuniary organization of society still gives great weight to the views of the owners of "vested wealth"; and in many places a spirit of abandon in legislation is doing much to discredit state interference. But we are quite consciously coming to complement our theory of the province of government with a theory of the use of other agencies of control. For we are learning that we must pay for what we get, that legislation cannot produce utopias, that good is achieved rather than acquired, and that the less conspicuous agencies of control are as certain as they are slow.

A consciousness of the end for which these means are used is hardest for us to acquire. But, difficult as the task is, we must realize that, if we attempt social control we must know what we are about; we must have a tentative goal; we must appreciate the "end" at which we are aiming. To achieve that end our proposals must fit together into consistent programs; the instruments of control which we use must complement each other. This does not mean that there must be no element of antagonism in the system, but rather that there must not be the spoiled work which comes from the confused counsel whose origin is in dealing with problems in isolation. Consciousness of the "end" also involves looking beyond immediate proposals. Beyond conflicting proposals, seemingly unimportant, lie powerful social theories, quite contradictory in the kind of societies they tend to produce. In many problems, therefore, the ultimate issue is between different systems. Shall our ideal be that of a personal and industrial feudalism, an individualistic America of the nineteenth century, a socialized Germany of the Hohenzollerns, an idealized and Marxianized state, or something else? Upon our conception of the ideal state toward which "progress" should carry us depends our "solution" of the problems which we are about to discuss.

But what, then, of the future? What is going to become of society? When will it solve its problems? When shall we attain unto peace and plenty? Perhaps we can find some consolation in the fact that even the wisest of men have constantly despaired of the future of society. Perhaps we can solace ourselves with hope, which is ours eternally. From the biblical dream of the "New Jerusalem" to Wells' vision of "A Modern Utopia," we have had pictures a-plenty of the perfect state which "some day" will be realized. We have always had, and still have, wise men who furnish us with magical formulae for finding "the way out." While most of these are so simple as to tax our credulity, few of them fail to contain some germ of social wisdom.

But, in anticipating the future, we must not forget that our social resources are—and ever must be—*limited*. We must not overlook the fact that the inter-

ests of all are *not identical*. There will ever be the necessity for a struggle with finite resources, and consequent economy. There will ever be competition for the larger shares of social income. If we intelligently attempt to direct the course of our development, if we try honestly to make the best possible contribution to the solution of the world-old enigmas of society, if we do our best to rid the immediate situation of its grosser incompatibilities, there is reason for thinking that development will more closely accord with that which we call "progress," that the newer social world will be somewhat more to the liking of the people who have to put up with it than the old. We shall not have freed future generations from having to "solve problems," but perhaps we shall have given them new problems somewhat further removed from "the margin of life." And thus we come to the end—and to the beginning—of our study.

## A. INDUSTRY AN INSTRUMENT

### 394. A Functional Society<sup>1</sup>

BY R. H. TAWNEY

A society which aimed at making the acquisition of wealth contingent upon the discharge of social obligations, which sought to proportion remuneration to service and denied it to those by whom no service was performed, which inquired first not what men possess, but what they can make, or create, or achieve, might be called a functional society, because in such a society the main subject of social emphasis would be the performance of functions.

The first condition, then, of the right organization of industry is the intellectual conversion which, in their distrust of principles, Englishmen are disposed to place last or to omit altogether. It is that emphasis should be transferred from the opportunities which it offers individuals to the social functions which it performs; that they should be clear as to its end and should judge it by reference to that end, not by incidental consequences which are foreign to it, however brilliant or alluring those consequences may be.

What gives it meaning to any activity which is not purely automatic is its purpose. It is because the purpose of industry, which is the conquest of nature for the service of man, is neither adequately expressed in its organization nor present to the minds of those engaged in it, because it is not regarded as a function but as an opportunity for personal gain or advancement or display, that the economic life of modern societies is in a perpetual state of morbid irritation. If the conditions which produce this unnatural tension are to be removed, the change can only be effected by the growth of a habit of mind which will approach questions of economic organization from

<sup>1</sup>Adapted from "The Sickness of Acquisitive Society," *Hibbard Journal*, XVII (1919), 356, 358-70. Copyright by Williams and Norgate (London), and Leroy Phillips & Co. (Boston).

the standpoint of the purpose which it exists to serve, and which will apply to them something of the spirit expressed by Bacon when he said that the work of man ought to be carried on "for the glory of God and the relief of men's estate."

Viewed from that angle, issues which are insoluble when treated on the basis of rights, may be found more susceptible of reasonable treatment. For a purpose is, in the first place, a principle of limitation. It determines the end for which, and therefore the limits within which, an activity is to be carried on.\* It divides what is worth doing from what is not, and settles the scale upon which what is worth doing to be done. It is, in the second place, a principle of unity, because it supplies a common end to which efforts can be directed, and submits interests which would otherwise conflict to the judgment of an overruling object. It is, in the third place, a principle of apportionment or distribution. It assigns to the different parties or groups engaged in a common undertaking the place in which they are to occupy in carrying it out. Thus it establishes order, not upon chance or power, but upon a principle, and bases remuneration, not upon what men can, with good fortune, snatch for themselves, nor upon what, if unlucky, they can be induced to accept, but upon what is appropriate to their function, no more and no less, so that those who perform no function receive no payment, and those who contribute to the common end receive honorable payment for honorable service.

The practical expression of the idea of purpose would be a change in the prevalent conceptions both of economic activity and of property. The natural result of emphasizing rights as the foundation of social organization is to cause industry to be regarded primarily as a private enterprise in which the interest of the community is indirect, and in which it intervenes only in the case of some special danger or abnormal abuse. The transference of emphasis from rights to functions would result in industry being considered primarily as a social service; and, however the principle that industry is a social service may be interpreted, there are at any rate three implications that are involved in it.

The first is that it should be conducted in complete publicity with regard both to costs of production and to profits. The second is that the primary consideration in its organization should be that the community should be offered the best service technically possible at the lowest price compatible with adequate payment to those who render it. The third is that, when all charges necessary to the supply of a service have been met, any surplus which remains should pass to the public.

Equally radical would be the modifications in the prevalent atti-

tude toward property. A sharp distinction would be drawn between property which is used by the owner for the conduct of his profession or the upkeep of his household, and property which yields an income irrespective of any personal service. The former, the holding of the peasant, or the tools of the workman, or the personal possessions necessary to a civilized life, would be regarded as legitimate, for they are the condition of service. The latter, of which the most obvious examples are urban ground rents or mining royalties, would be regarded as illegitimate, since they are merely a pecuniary lien upon the product of someone else's industry, which carries no obligation of service with it.

A functional society would extinguish mercilessly those forms of property rights which yield income without service. It would treat all forms of property other than personal possessions as subject to the eminent domain of the state; and though it would not necessarily retain their administration in its own hands, it would reserve its right to resume it whenever the function attached to them was not discharged.

It would not seek to establish any visionary communism; for it would realize that a free disposal of a sufficiency of personal possessions is necessary for a healthy individual life, and would distribute them more widely by abolishing the property rights in virtue of which they were concentrated. But there would be no private property in urban land; it would be owned by the authorities of the city which is built upon it, as in many continental towns it is owned today, and they would be armed with powers of compulsory acquisition to supply the need for space for a growing population.

There would be question of the right of the owner of agricultural land to use it for sport. There would be private property—subject to the right of compulsory purchase—in industrial capital used by the owners for the purpose of production: the forge of the smith, the workshop of the carpenter, the factory of the man who is at once owner and manager. But there would be an end of the property rights in virtue of which the welfare of the industries on which whole population depends are administered by the agents and for the profit of absentee shareholders.

### 395. The Ethics of Industry<sup>2</sup>

BY JAMES H. TUFTS

The issues are so involved and both the facts and their interpretations are in so much controversy that upon most economic problems

<sup>2</sup>Adapted from John Dewey and James H. Tufts, *Ethics*, pp. 514-22. Copyright by Henry Holt & Co., 1908.



we cannot yet formulate sure moral judgments. Yet certain principles emerge with a good deal of clearness. We state some of the more obvious.

1. *Wealth and property are subordinate in importance to personality.*—The life is more than meat. Most agree to this, but many fail to make the application. They may sacrifice their own health, or human sympathy, or family life; or they may consent to this actively or passively as employers, or consumers, or citizens, in the case of others. A civilization which loses life in providing the means of life is not highly moral. A society which can afford luxuries for some cannot easily justify unhealthy conditions of production or lack of general education. A society which considers wealth or property as ultimate, whether under a conception of "natural rights" or otherwise, is setting the means above the end, and is therefore unmoral or immoral.

2. *Wealth should depend on activity.*—The highest aspect of life on its individual side is found in active and resolute achievement, in the embodying of purpose in action. Thought, discovery, creation, mark a higher value than the satisfaction of wants, or the amassing of goods. If the latter is to be a help it must stimulate activity, not deaden it. Inherited wealth without any accompanying incitement from education or class feeling or public opinion would be a questionable institution from this point of view. As the race has made its ascent in the presence of an environment which has constantly selected the most active persons, society in its institutions and consciously directed processes may well plan to keep the balance between activity and reward.

3. *Public service should go along with wealth.*—Such service, in the form of some useful contribution, whether to the production or the distribution of wealth, to the public order, to education, to the satisfaction of aesthetic and religious wants, might be demanded as a matter of common honesty. This would be to treat it as a just claim made by society upon each of its members. There is, of course, no legal claim. The law is far from adopting as its motto, "If any man will not work, neither let him eat." Vagrancy is not a term applied to all idlers. Modern law, in its zeal to strengthen the institution of property, releases the owner's posterity from the necessity of useful service. The old theology used to carry the conception of inherited or imputed sin and merits to extremes which modern individualism rejects. But the law permits inheritors of property to receive from society without rendering any personal return. Merely "to have been born" is hardly sufficient in a democratic society.

But there is another aspect—what the service means to the person himself. It is his opportunity to fulfil his function in the social organism. A person is as large as his purpose and will. The person, therefore, who identifies his purposes with the welfare of the public is thereby identifying himself with the whole social body. He is no longer himself alone; he is a social power. This is true of the leaders of society; of the great inventors and organizers of industry; and of the common laborer himself. As each is an active contributor, he becomes creative, not merely receptive.

4. *The change from individual to collective methods of industry and business demands a change from individual to collective types of morality.*—Moral action is either to accomplish some positive good or to hinder some wrong or evil. But under present conditions the individual by himself is practically helpless and useless for either purpose. It was formerly possible for a man to set a high standard and live up to it, irrespective of the co-operation of others. When a seller's market was limited to his acquaintances, it might well be that honesty was the best policy. But with changes in business conditions, the worse practices, like the baser coinage, in many cases have driven out the better. A merchant desires to pay his women clerks a living wage. But his rival across the street pays only half the wage necessary for subsistence, and puts him at a disadvantage. This railroad defies the government by owning coal mines as well as transporting the product; that public service corporation has obtained its franchise by bribery; this corporation is an employer of child labor; that finds it less expensive to pay a few damage suits than to adopt devices which protect employees. Does a man, or even an institution, act morally if he invests in such corporations in which he finds himself hopeless as an individual stockholder? If he sells the stock at the market price to invest the money elsewhere, is it not still the price of fraud or blood? The individual cannot be moral in independence. The modern business collectivism forces a collective morality. Individual morality must give place to a more robust or social type.

5. *To meet the change to corporate agency and ownership ways must be found to restore personal control and responsibility.*—Freedom and responsibility must go hand in hand. The "moral liability limited" theory cannot be accepted in the simple form in which it now obtains. If society holds stockholders responsible, they will soon cease to elect managers merely on the economic basis and will demand morality. "Crime is always personal," and it is not usual for subordinates to commit crimes for the corporation against the explicit wishes of higher officials. In certain lines the parties concerned have sought

to restore a more personal relation. It has been found possible to engage foremen who can get on smoothly with workmen. Labor unions are coming to see the need of conciliating public opinion if they are to gain their contests.

6. *To meet the impersonal agencies society must require greater publicity and express its moral standards more fully in law.*—Publicity is not a cure for bad practices, but it is a powerful deterrent agency so long as the offenders care for public opinion. Publicity—scientific investigation and public discussion—is indeed indispensable, and its greatest value is probably not in the exhilarating discharge of righteous indignation, but in the positive elevation of standards, by giving completer knowledge and showing the fruits of certain practices. A large proportion of the public will wish to do the right thing if they can see it clearly and can have public support.

But the logical way to meet the impersonal character of modern economic agencies is by the moral consciousness embodied in the law. The law is not to be regarded chiefly as an agency for punishing criminals. It, in the first place, defines a standard; and, in the next place, it helps the moral man disposed to maintain this standard by freeing him from unscrupulous competition.

7. *Every member of society should share in its wealth and in the values made possible by it.*—The worth and dignity of every human being of moral capacity is fundamental in nearly every moral system of modern times. It is implicit in the Christian doctrine of the worth of a soul, in the Kantian doctrine of personality, in the Benthamic dictum, "every man to count as one." It is imbedded in our democratic theory and institutions. With the leveling and equalizing of physical and mental power brought about by modern inventions and the spread of intelligence, no state is permanently safe except on a foundation of justice. Justice cannot be fundamentally in contradiction with the essence of democracy. This means that wealth must be produced, distributed, and owned justly; that is, so as to promote the individuality of every member of society, while at the same time he must always function as a member, not as an individual.

### 396. Surplus Wealth for the Common Good<sup>a</sup>

In the disposal of the surplus above the standard of life, society has hitherto gone as far wrong as in its neglect to secure the necessary basis of any genuine industrial efficiency or decent social order. We

<sup>a</sup>Adapted from the resolutions adopted at a conference of the British Labor Party, 1918.

have allowed the riches of our mines, the rental value of the lands superior to the margin of cultivation, the extra profits of the fortunate capitalists, even the material outcome of scientific discoveries—which ought by now to have made this Britain of ours immune from class poverty or from any widespread destitution—to be absorbed by individual proprietors; and then devoted very largely to the senseless luxury of an idle rich class. Against this misappropriation of the wealth of the community, the Labor party—speaking in the interests, not of the wage-earners alone, but of every grade and section of producers by hand or by brain, not to mention also those of the generations that are to succeed us, and of the permanent welfare of the community—emphatically protests.

One main pillar of the house that the labor party intends to build is the future appropriation of the surplus, not to the enlargement of any individual fortune, but to the common good. It is from this constantly arising surplus (to be secured, on the one hand, by nationalization and municipalization and, on the other, by the steeply graduated taxation of private incomes and riches) that will have to be found the new capital which the community day by day needs for the perpetual improvement and increase of its various enterprises, for which we shall decline to be dependent on the usury-exacting financiers. It is from the same source that has to be defrayed the public provision for the sick and infirm of all kinds (including that for maternity and infancy) which is still so scandalously insufficient; for the aged and those prematurely incapacitated by accident or disease, now in many ways so imperfectly cared for; for the education alike of children, of adolescents, and of adults, in which the Labor party demands a genuine equality of opportunity, overcoming all differences of material circumstances; and for the organization of public improvements of all kinds, including the brightening of the lives of those now condemned to almost ceaseless toil, and a great development of the means of recreation.

From the same source must come the greatly increased public provision that the Labor party will insist on being made for scientific investigation and original research, in every branch of knowledge, not to say also for the promotion of music, literature, and fine art, which have been under capitalism so greatly neglected, and upon which, so the Labor party holds, any real development of civilization fundamentally depends. Society, like the individual, does not live by bread alone—does not exist only for perpetual wealth production. It is in the proposal for this appropriation of every surplus for the common good—in the vision of its resolute use for the building up of the com-

munity as a whole instead of for the magnification of individual fortunes—that the Labor party, as the party of the producers by hand or by brain, most distinctively marks itself off from the older political parties, standing, as these do, essentially for the maintenance, unimpaired, of the perpetual private mortgage upon the annual product of the nation that is involved in the individual ownership of land and capital.

### 397. Control—Agitation vs. Method<sup>4</sup>

BY WESLEY C. MITCHELL

The effect of the war upon our attitude toward the use of facts for the guidance of policy links the present stake of civilization with man's savage past. Anthropologists have come to recognize that catastrophes have played a leading rôle in advancing culture. The savage and the barbarian are such conservative creatures that nothing short of a catastrophe can shake them out of their settled habits, make them critical of old taboos, drive them to use their intelligence freely.

In physical science and in industrial technique, it is true, we have emancipated ourselves largely from the savage dependence upon catastrophes for progress. For in these fields of activity we have developed a habit of criticizing old formulations, of testing what our fathers accepted, of experimenting. We keep discarding the good for the better, even when not under pressure. The result is a fairly steady rate of advance—advance so regular that we count upon it in laying plans for the future. Today we are sure that ten years hence our present scientific ideas and our present industrial machinery will be antequated in good part.

In science and in industry we are radicals—radicals relying upon a tested method. But in matters of social organization we retain a large part of the conservatism characteristic of the savage mind. A great catastrophe may force us for a little while to take the problems of social organization seriously. While under stress we make rapid progress. But when the stress is past we relapse gratefully into our comfortable faith in thinking that has been done for us by our fathers.

I know that there are ardent folk who will challenge these contentions at least for the present. They trust that the outburst of patriotic fervor brought on by the war will carry us triumphantly forward for a generation. They count on the generous self-sacrifice

<sup>4</sup>Adapted by permission from "Statistics and Government," *Quarterly Publications of the American Statistical Association*, XVI (1918), 228-32.

which all classes have shown to solve the problems of peace as they have solved the problems of war. Certainly we shall never be precisely where we were before the war. But just as certainly we shall not remain what we have been during the war. We cannot depend upon any carrying over of war psychology to organize democracy in peace.

The "social reformer" we have always with us, it is true, or rather most of us are "social reformers" of some kind. We all admire the qualities that go to make the leaders in social reform—warm sympathy for the oppressed, courage to face ridicule, flaming zeal in the face of indifference, tact and energy in conducting crusades. But an indefinite succession of campaigns to secure this, that, and the other specific reform is what we have been having for a long, long time. Many of the reforms on which our grandfathers, our fathers, and our youthful selves have set our hearts have been achieved. Yet the story of the past in matters of social organization is not a story that we should like to have continued for a thousand and one years. Reform by agitation or class struggle is a jerky way of moving forward, uncomfortable and wasteful of energy. Are we not intelligent enough to devise a steadier and a more certain method of progress?

Most certainly we could not keep social organization what it is even if we wanted to. We are not emerging from the hazards of war into a safe world. On the contrary, the world is a very dangerous place for a society framed as our is, and I for one am glad of it. The dangers are increased by our very progress in industry and in democracy. Not long ago an English physicist re-emphasized the fact that modern Christendom is using up at an ever-increasing pace the energy stored during long ages in the coal fields, and pictured the doubtful fate of human kind as hanging on the race between science and the atom. Has not the time come to apply our intelligence to taking stock of the resources that the earth still holds and to developing methods of utilization that will protect our future? As for democratic progress, we know that men who can read and vote make restless citizens in a state where their work is not interesting to them and where their rewards do not satisfy their sense of justice. Such is the present stage of affairs with millions of aggressive Americans. They can be counted upon to change things by turmoil if things are not changed by method.

Our first and foremost concern is to develop some way of carrying on the indefinitely complicated processes of modern industry and interchange day by day, despite all tedium and fatigue, and yet keep-

ing ourselves interested in our work and contented with the division of the product. This is a task of supreme difficulty—a task that calls for intelligent experimentation and detailed planning rather than for agitation and class struggle. What is lacking to achieve the end, indeed, is not so much good-will as it is knowledge, above all knowledge of human behavior.

Our best hope of the future lies in the extension to social organization of the methods which we already employ in our most progressive fields of effort. In science and in industry, I have said, we do not wait for catastrophes to force new ways upon us. We do not rely upon the propelling power of great emotion. We rely, and with success, upon quantitative analysis to point the way; and we advance because we are constantly improving and applying such analysis.

While I think that the development of social science offers more hope for solving our social problems than any other line of endeavor, I do not claim that these sciences in their present state are very serviceable. They are immature, speculative, filled with controversies. Their most energetic exponents are still in the stage of developing new "viewpoints," beginning over again on a different plan instead of carrying farther the analysis of their predecessors. In part the social sciences represent not what is so much as what their writers think ought to be. In short, the social sciences are still childish. Nor have we any certain assurance that they will ever grow into robust manhood, no matter what care we lavish upon them. They are blind leads of speculation in which past generations have mined industriously for ages with little gain. Perhaps the social sciences will prove more like metaphysics than like mechanics, more like theology than like chemistry. The race may always shape its larger destinies by a confused struggle in which force and fraud, good intentions, fiery zeal, and rule of thumb are more potent factors than measurement and planning. Those of us who are concerned with the social sciences, then, are engaged in an uncertain enterprise; perhaps we shall win no great treasures for mankind. But certainly it is our task to work out this lead with all the intelligence and the energy we possess until its richness or sterility be demonstrated.

The social sciences, however, cover an immense field, and it is not probable that we shall encounter failure or success in all its parts. The parts which are most promising just now include the field of statistics. Measurement is one of the outstanding characteristics of science at large, whether in the field of inorganic matter or life processes. Social statistics, which is concerned with the measurement of social phenomena, has many of the progressive features of the

physical sciences. It shows forth right progress in knowledge of fact, in technique of analysis, and in refinement of results. It is amenable to mathematical formulation. It is capable of forecasting group phenomena. It is objective. A statistician is usually either right or wrong, and his successors can demonstrate which. Statisticians are not continually beginning their science all over again by developing new viewpoints. When one investigator stops, the next investigator begins with larger collections of data, with extensions into fresh fields, or with more powerful methods of analysis. In all these respects, the position and prospects of social statistics are more like the position and prospects of the natural sciences than like those of the social sciences.

Above all, social statistics even in its present stage is directly applicable over a wide range in the management of practical affairs, particularly the affairs of government. The practical value of statistics is readily demonstrable even to a busy executive. Once secure a quantitative statement of the crucial elements in an official's problem, draw it up in concise form, illuminate the tables with a chart or two, bind the memorandum in an attractive cover tied with a new bowknot, and it is the exceptional man who will reject your aid. Thereafter your trouble will not be to get your statistics used, but to meet the continual calls for more figures, and to prevent your convert from taking your estimates more literally than you take them yourself.

We may well cherish high hopes for the immediate future of social statistics. In contributing toward a quantitative knowledge of social facts, in putting knowledge at the disposal of responsible officials, we are contributing a crucially important part toward achieving the greatest task that confronts mankind today—the task of developing a method by which we may make cumulative progress in social organization.

## B. CONTROL BY MAGIC—PANACEAS

### 398. Stable Money and the Future<sup>5</sup>

BY GEORGE H. SHIBLEY

With a return to the more stable bimetallic standard of prices and with the principle established that "stability in the measure of

<sup>5</sup>Adapted from "The 50 Per Cent Fall in General Prices, the Evil Effects, the Remedy, Bimetallism at 16 to 1, and Governmental Control of Paper Money, in Order to Secure a Stable Measure of Prices," in *Stable Money: Monetary History, 1850-1896*, pp. 722-23. Copyright by the Stable Money Publishing Co., 1896.



prices (exchange value) is the desideratum," *the people of the United States will insist that the measure be kept practically unfluctuating through the government controlling the volume of paper money.* THIS WILL MAKE STABLE THE MEASURE OF PRICES THROUGHOUT THE SPECIE-USING COUNTRIES. In a short time, then, the principle will become deeply rooted in the ethics of *all the advanced peoples* that stability in the measure of prices is just—right. Then shall we have such co-operation among nations as will keep specie in the money of the several countries, and by so doing *keep an equilibrium in the export and import prices of these countries through using the specie in paying balances in trade.*

With a stable measure of prices there will be added "a wholly new degree of stability to social relations." This is equivalent to saying that with general prices stable *there will be steady employment and the consequent good times and the dropping away of nearly all the tariff wars.* THEN WILL THE DISARMING OF EUROPE SPEEDILY COME ABOUT AND THE ARBITRATION OF ALL FUTURE DIFFERENCES BE AGREED UPON BY THE LEADING NATIONS. AND WHEN THIS OCCURS THE LESSER NATIONS WILL BE COMPELLED TO SUBMIT THEIR DISPUTES TO ARBITRATION.

This is not visionary. It is the direction toward which past events point. Are we to progress? Reader, you are one of the factors. Is it in you to help along the car of progress?

### 399. The Way Out<sup>6</sup>

BY JOHN RAYMOND CUMMINGS

In the following pages I undertake to prove these propositions:

That there is a natural money.

That its adoption will make panics impossible.

That after a term of years natural money will bring our banking system to such condition that every bank will be able to pay all its obligations instantly. Banks will then be the accountants, custodians, and clearing-houses for all the people.

That in the course of time (probably within fifty years) natural money will put all business on a cash basis.

That in a like period the interest rate for property loans will fall to 1 or 2 per cent, and probably will disappear from money loans.

Natural money will enable the government to take over all the

<sup>6</sup>Adapted from *Natural Money: The Peaceful Solution*, pp. 5-6. Copyright by the Bankers Publishing Co., 1912. See also the author's *Social Autonomy: The New Economic Dispensation*.

land and all the privately owned public utilities on terms very liberal to present owners, without issuing a bond and without hardship and injustice.

It will enable the government to build during the same period a million miles of highway at a cost of \$10,000 the mile.

To irrigate and drain a large proportion of the area needing irrigation and drainage.

To develop tens of millions of horse power from water and distribute it throughout the country.

To develop internal waterways on a scale hitherto unattempted and undreamed of.

It will raise wages and end strikes and lockouts.

It will establish natural wages and secure equity as between employers and employees.

It will pay off the government debt and make future debt impossible.

It will end our present industrial warfare and bring now discordant classes into harmonious co-operation, inaugurating an era of progress and prosperity such as the world has not even conceived of.

#### 400. Universal Federation<sup>7</sup>

BY KING C. GILLETTE

"World Corporation" will result in a new civilization, new in every part of its structure of mind and matter. The whole aspect of nature will assume new meanings and ends, for it will be seen by new senses of interpretation. With our present individual knowledge, we cannot conceive it; or, if we could, we would not believe it possible.

Who is there wise enough to predict what will result after "world-corporation" has been launched, after the people realize what its success will mean, what the outcome will be? Who can foresee to what degree of enthusiasm the people will rise in their desire and hope for emancipation! Man is emotional, and quickly carried forward upon waves of popular excitement; and it is these great tidal waves of emotion that mark the revolutionary changes throughout history. The gradual growth of a thought, an idea which has within it a germ of human progress, finds its culmination in emotion, and change is brought about quickly and decisively.

<sup>7</sup>Adapted from *World Corporation*, pp. 216-19. Copyright by the author, 1910.

The thought that humanity is on the borderland of a new system, a new epoch-making period of the world's history, is spreading from mind to mind, and rapidly changing preconceived ideas of life and man's relation to man and to nature. The fever of excitement is already beginning to course through the veins, and only waits on conviction to burst into flame.

The elimination of competition by the centralization of industry into corporations and trusts, and its resulting economies, has set the individual to thinking. He begins to doubt his old belief that competition is necessary to progress; he asks himself questions and seeks the answers in his own mind, and, when these answers are not forthcoming, he asks others. Discussions are heard on every hand in regard to corporations and trusts, and newspapers and magazines are largely devoted to this same subject. All are asking: What is the outcome of this evolution that is taking place? What is a corporation? What is a trust? Are they not miniature corporate governments of capital and individuals? And gradually the thought begins to dawn—the thought which is going to rise to a culminating point within the next few years, and carry men off their feet; which will crowd out every selfish idea—THE THOUGHT THAT THE EMANCIPATION OF THE HUMAN RACE IS IN OUR HANDS. By a single stroke humanity can change a system of extravagance, disorder, injustice, and crime into one of order, equity, and virtue. Nothing stands in the way; for where is there any difference between the control of a part of industry by a few individuals and the control of all industry by all? This is the thought that will be acted upon; this is the thought that will make men forget self and pour their minds and wealth with equal prodigality into the treasury of "world-corporation."

Enthusiasm is the foundation of power which centralizes force and destroys every barrier between itself and its purpose. It makes an army out of scattered parts. It leads to "world-corporation."

#### 401. A New Earth<sup>8</sup>

BY SIR LEO CHIOZZA MONEY

It would be a great pity, if anyone were to imagine that the changes necessary to secure the just reward of all forms of labor are either difficult to effect or likely to cause dislocation in the making. The greater number of our industrial concerns are already

<sup>8</sup>Adapted from *Riches and Poverty*, pp. 324-29. Published by Methuen & Co., 1905.

shaped in the form of limited liability companies, the shareholders in which are dumb, while the management is in the hands of paid officials. The reform which needs to be effected is to substitute the community at large for the dumb shareholders. Management, ability, invention, would be properly rewarded, as they are now rewarded in some cases, and as they are not now rewarded in many cases. The only change would be the gradual substitution of the community for the shareholders, and the consequent disappearance of unearned incomes. Such portions of the product as were necessary for application as new capital would be so applied by the community. For the rest, the whole of the product would go to labor. Savings, the necessary saving, without which labor would go without tools, would be simply and automatically effected, and capital would take its true and rightful place as the handmaiden of labor.

Let us not go farther without a vision and a hope. That vision, that hope, is not of a regimented society, but of a community relieved from nine-tenths of its present irksome routine and carking care. If the individual is to be set free it can only be in a society so organized as to reduce the labor employed in the production of common necessities to a minimum. The minimum cannot be secured without the organization of each of the great branches of production and distribution. Common needs can be satisfied with little labor if labor be properly applied. The work of a few will feed a hundred or supply exquisite cloth for the clothing of fifty. The work of a few hours per day of every adult member of the community will be ample to supply every comfort in each season to all. Thus set free, the lives of men will turn to the uplifting, individual work which is the pride of every craftsman. The dwellings of men will contain not only the socialized products within common reach, but the proud individual achievements of their inmates. The simple and beautiful clothing of the community will chiefly be made of fabrics woven in the socialized factories, but it will often be worked by the loving hands of women. A happy union of labor economized in routine work and labor lavished upon individual work will uplift the crafts of the future and the character of those who follow them. The abominations of machine-made ornament will disappear, and art be wedded to everyday life. Each new invention to save labor in mining, or tilling, or building, or spinning, will be hailed with joy as a release from toil and a gift of more time in which to do individual work.

The inventor, the originator, now unhappily compelled to hunt for a capitalist and bow low his genius before some individual distinguished only for that gift of acquisitiveness, that business ability,

which is the lowest attribute of mankind, will see his idea put to the test and reap not unholy gains but the honor of his fellows if it is not found wanting. The painter, no longer compelled to paint portraits for the rich and not necessarily beautiful, will ally his gifts with the common life of men and be carried in triumph before the enduring monuments of his genius. The organizer, the man of arrangement, will be invited to exercise his talent, not in overreaching and despoiling his fellows, but in planning their welfare in a thousand new schemes of development.

No host of wasteful workers will be found in the industrial camp. Accounts will be simple and clerks few. No travelers, agents, or touts will be needed to push doubtful commodities. The sham and the substitute will be found only in museums. It will be obviously ridiculous to employ any but good materials, for labor can only be economized by producing the things which are the best of their kind. Policies of insurance, those typical documents of a community of prey, will be read in the public archives with much the same feeling as we now read a warrant for the burning of a Bruno. The young men who now waste their time in ruling up books in banks and insurance offices or in serving writs will find manly and useful work. The production of commodities will be commensurate with the labor put forth, unemployment will be one of the few crimes known to the statute-book, and last, but not least, the economic dependence of women will cease.

The attainment of such ends will only be difficult as long as we refuse to apply scientific methods to the ordering of common affairs. It is in the domain of politics alone that men refuse to apply first principles to the solution of problems. The mental daring which has accomplished so much in engineering, in astronomy, in surgery, in every department of science, is replaced in the sphere of politics by a timorous tinkering with admitted evils. With things the scientist has worked marvels in a single century. With those marvels the politician has done little. The scientist has applied his skill to locomotion; the politician has refused to avail himself of that skill in order to distribute the population healthily. The scientist has stated the conditions of health; the politician has refused to create those conditions. The scientist has supplied the tools; the politician has neglected to take them up.

The problem of riches and poverty is of the simplest. It presents none of the difficulties which attach to the measurement of the mass of the sun, or the treatment of such a disease as cancer. Science has presented us with such instruments that we can easily

create a tremendous superfluity of commodities if we choose to do so. We know how to produce; we know how to transport the results of our production. The appliances at our command could furnish many more foot-tons of work than are needed to give proper housing, suitable clothing and good food to every unit of the community. There is here no impenetrable secret; we have read enough in the book of Nature to control her forces to effect; our power of production is not too small, but already greater than our need. If invention went no farther, if science now came to a standstill, we should have tools more adequate to abolish poverty.

Unfortunately the politicians and the economists have never discussed the question of poverty from this point of view. Volumes have been written on such subjects as "rent," "interest," or "value," but nothing has been done to enquire how much work is needed to feed, clothe and house a community, and how best that work may be accomplished. In designing an engine, the man of science considers the work to be done and the known means to do it. For want of that agreement and determination, for want, that is, of a wise collectivism, the greater number of our people are poor. It is a world of service which a civilization would substitute for a world of serfdom and pain. But if, realizing that the world has no room for the idle, the people would rise to a freedom only bounded by the knowledge of and necessity for collective decision, then there is the broadest avenue for hope and the clearest call to action. The achievements of those who are gone, these are the inheritance of the people. The only true riches of the nation, men and women, these are the people themselves. The people have but to will it, and we set our faces toward a civilization.

### C. CHECKS AND BALANCES

#### 402. The Moral Influence of Capital<sup>9</sup>

BY FREDERIC BASTIAT

To set about the creation of capital we must look forward to the future and sacrifice the present to it; we must exercise a noble empire over ourselves and over our appetites; we must resist the seduction of present enjoyments, the impulses of vanity, and the caprices of fashion, and of public opinion always so indulgent to the thoughtless and the prodigal. We must study cause and effect, in order to discover by what processes and by what instruments nature can be made

<sup>9</sup>Adapted from *Economic Harmonies*, p. 186.

to co-operate in the work of production. We must be animated by love for our families; and not grudge present sacrifices for the sake of those who are dear to us, and who will reap the fruits after we ourselves have disappeared from the scene.

To create capital is to prepare food, clothing, shelter, leisure, instruction, independence, for future generations. Nothing of all this can be effected without bringing into play motives which are eminently social; and what is more, converting these virtues into habits. Thus in whatever point of view we place ourselves, whether we regard capital in connection with our wants which it ennobles; with our efforts which it facilitates; with our enjoyments which it purifies; with nature which it enlists in our service; with morality which it converts into habit; with sociability which it develops; with equality which it promotes; with freedom in which it lives; with equity which it realizes by methods the most ingenious; everywhere, always, provided that it is created and acts in the regular order of things and is not diverted from its natural uses, we recognize in capital what forms the indubitable note and stamp of all great providential laws, harmony.

BY WILLIAM EDWARD HEARN<sup>10</sup>

The moral influence that capital, both in its formation and its action, exercises upon the person that accumulates it, is very noteworthy. Experience soon teaches man the necessity of reinforcing his first feeble efforts to satisfy the imperious cravings of his nature. The acquisition of capital, the first and most obvious means for his purpose, not only exercises the intellect by suggesting the adaptation of means to ends, but teaches the far harder lesson of forbearance. Man quickly finds that if he wishes to enjoy himself to any considerable extent, he must prepare for his enjoyment by self-denial. He must learn to put a check upon his present impulses, and to brace his mind to a steady contemplation of the future. The very exigencies of his position insure, when the process of saving has once fairly begun, that predominance of the past, the distant, and the future over the present which, according to a well-known maxim, elevates a man in the rank of thinking beings.

Again, the power to save is exerted not for the sake of the person himself only, but also for the sake of others. Apart from those other instances to which reference has been already made, the records of the savings banks show that savings are often effected by the very poorest people with the avowed object of assisting their parents, or some other

<sup>10</sup>Adapted from *Plutology, or the Theory of the Efforts to Satisfy Human Wants* (1894), pp. 144-46.

near relative. The possession of the accumulation gives the power of doing kindly acts; and the sympathies thus excited stimulate to the acquisition of further means of beneficence. Thus the disposition to save is at once strengthened by, and itself strengthens, the charities of domestic life.

It must also be remembered that the capitalist is by the nature of his property bound to promote order and peace. To his interests all disorder and all wars are peculiarly destructive. The larger the amount that a man has accumulated, and the larger the portion of that stock that he is induced to invest as capital, and the more distant the returns that he expects to derive from his investment, so much the more numerous and more binding are the pledges that he thereby gives to fortune; and so much the closer is the tie which binds him up with the settled order and the continuous improvement of the society in which he lives.

Nor should we forget that the possession of capital implies also the possession of leisure: and is a condition precedent to the cultivation of all those arts that refine and adorn life.

#### 403. The Price-System and Development<sup>11</sup>

BY WALTON H. HAMILTON

A response to immediate pecuniary interest has greater influence upon the conduct of individuals than a consciousness of their more ultimate interests as members of competing groups; yet out of their responses to individual interest, so diverse and so contradictory, a coherent social development has sprung.

This coherence has its source in the organization of the personnel of our industries in the form of a hierarchy. At its apex are the enterprisers, recipients of large incomes, endowed with comprehensive industrial powers, and, perhaps most important of all, possessed of unusual control over public opinion. Their vantage position has come with the great transformation of life and values which we call the industrial revolution. The nature and scope of this will be made clear by a brief comparison of the older craft system and the newer machine process.

The craft system tends to a diffusion of wealth and industrial initiative. It has its basis in the tool, whose cost is small and whose utility extends to an infinitude of tasks. Where it still

<sup>11</sup>Adapted from "The Price-System and Social Policy," *Journal of Political Economy*, XXVI (1918), 54-66. Copyright by the University of Chicago.



dominates technique, as in agriculture and retail selling, productive establishments are small, numerous, and widely scattered. The prevailing type of organization is the personal establishment or the partnership. Among those engaged in these industries there may be something of a common viewpoint, system of thought, and scheme of ideals. Where these exist they are unconsciously held and owe their strength, not to communication and organization, but to the influence of similar working conditions. But the disorganization attending the multitude of establishments prevents the rise of a clearly defined group-consciousness which finds expression in a concerted program. Nor is there present the host of dependents who can be persuaded, at least for the moment, that their interests are identical with those of their employers. Lacking means for forcing their viewpoint and ideals upon their own and other groups, the men busied with the craft technique are in positions of small strategic importance.

The modern industrial system, on the contrary, tends to a concentration of wealth and industrial control. It has as its basis the machine, which is a complicated collection of parts, costing much in labor and accumulated wealth, and useful for a highly specialized task. The specific character of its work makes necessary in a single establishment a large number of machines differentiated in function. The small contribution which can be allowed it for the work which it performs upon a single unit of product inhibits its use in any save large establishments. Accordingly plants using the new technique are likely to be of immense size, small in number, and highly concentrated. Their corporate form of organization puts control of them in the hands of a small number of men. This, with the small number of really large establishments, gives rise to a group differing from others in wealth, in industrial function, and in habits of life. The small number and the identity of function facilitate communication and lead to the informal rise of common habits of thought, industrial ideals, and methods of action. In time there arises among them a conscious sense of solidarity of interests. However much they compete with each other, they are alike opposed to legislation or informal action designed to increase the prices of cost goods. Likewise they are agreed as to the desirability of any proposal promising a further expansion of business. The ease of communication and the identity of interests permit these and similar beliefs and desires to find expression in a consistent program. A connection between the realization of this program and the dividends which they regularly

expect is sufficient for its diffusion in the much larger circle of the owners of the industries.

The vantage-point held by the enterprisers is further emphasized by the unique position which the industries that they command occupy in the public mind. The concern of the American intellect is distributive rather than collective; particular rather than general. It thinks in terms of the single establishment which it sees rather than of the nation-wide industry which it can perceive only in the abstract. It attributes immense importance to manufacturing because of the vast smokestacks, the massive piles of brick, and the hosts of laborers of the single establishment. It denies a like social importance to agriculture because it cannot escape the picture of two buildings upon a hundred acres, an assortment of small tools, and an antiquated use of horse-power. Its unfamiliarity with totals leads it habitually to see in every new establishment an increase in wealth rather than a mere diversion of capital from other lines of endeavor. So firm is the conviction that machine industries are all good that one finds no city insisting that its importance is to be measured by other things than the number of its factories and population. He detects no evidence of a civic pride which insists that problems are growing faster than they can be solved and that industrial expansion be halted until they be got in hand. On the contrary, convention is giving an even added importance to machine industry. The public, for instance, sees in the industrial plant the city possessed of its wide variety; in the farm, the country with its dull monotony. Likewise it attributes the great increase in material wealth and the advance in the standard of living entirely to the machine process, oblivious alike to the contributions of the industries still using the tool and to the gifts of a benevolent nature.

The strategic position of the managerial class makes easy the dissemination of their viewpoint and would-be policies. The very nature of the productive process which runs its interminable length from raw materials to finished goods furnishes many opportunities for propaganda. Only a few of its many operations are performed in establishments making large use of machinery. It connects at many points with businesses in which the newer technique has only a nominal hold. These smaller concerns are under the necessity of disposing of their products and of securing profits regularly. In many cases they produce raw materials which the larger concerns use; in others they sell to laborers employed in the large establishments; in still others they turn out goods whose uses are complementary to those of the products of large businesses. With an eye to

immediate profits they see a benefit to themselves in the advancement of the pecuniary interests of the large establishments. They are thus disposed to the favorable reception and advocacy of proposals promising immediate pecuniary returns to the larger concerns.

A second connection favorable to the dissemination of such views is the existence of industries and professions subsidiary to technical production. In the development of the industrial system a number of such complementary businesses have grown up. Chief among them are the agencies for credit, such as banks, loan and mortgage associations, insurance companies, and the exchanges. Their common concern with finance unites them into a single compact group in which the larger establishments are dominant, and which penetrates into every nook and corner of the industrial system. The larger establishments perform functions essential to large-scale industrial operations and derive their profits from that source. In many cases they are creatures of manufacturing, mining, and transportation companies. Their connections result in an identification of their interests with those of large industrial corporations. Their position in the financial system makes easy a dissemination of their opinions among the men in smaller establishments. Finally the intimate connections of the financial system with all kinds of businesses give opportunity for a general circulation of managerial theory and opinion.

A kindred subsidiary interest is the legal profession. In the transformation which has come over it in the last half century, law has become an adjunct to business. Its practitioners have constant association with members of the managerial class, they are frequently called to managerial positions, the possibility of the most lucrative employment comes from that source, and the career of the lawyer of importance is spent in advancing business interests. As a complement to personal interest the nature of the system in terms of which the lawyer does his thinking makes him a ready, even if unconscious, agent of propaganda. For it is evident that the individualistic assumptions of the law, with their implication of the substantial immutability of social arrangements, are strikingly in harmony with the managerial theory of the universe.

The press constitutes a third vehicle for the dissemination of this theory. Both the magazine with its country-wide circulation and the newspaper whose influence is confined to a single city have fallen under corporate ownership. While the personal traditions of an earlier age have not entirely departed, the concern is organized as a money-making venture, its stockholders cry aloud for

dividends, and its policy tends to be regulated by business principles. To this end it must have both advertising and subscriptions. But its revenue comes largely from the former, and the latter is of importance only as indicative of a circulation that can be made to appeal to the advertiser. In view of this, the independence of the editors has been giving way to a subordination to the business office. The latter has come to exercise a censorship both over news and over editorial expression. The first, taking the form of standards of taste as to what is to be published, becomes a matter of aesthetics rather than one of liberty of utterance. The restraints upon editorial utterance are more open, but even here the question is merely one of maintaining the traditional policy of the paper. Because of these changes a large part of the press has come to a willing, even if unconscious, instrument for the dissemination of fact and fiction favorable to the immediate pecuniary interests of the managerial class. All of these, bankers, brokers, lawyers, advertising managers, editors, and what-nots, have intimate personal relations with responsible business men. These tend to a common viewpoint, common habits of thought, and a common theory of social welfare.

The social policy which the price-system permits to be formulated accordingly meets two requirements. The first is a demand for a preservation against collective action seeking to change conventional arrangements, for a change in the fundamental conditions under which industry is carried on is accompanied by radical disturbance in the structure of prices. These are manifest in financial disorder, friction, scrapping of capital, unemployment of labor, and other disadvantages pertinent to the temporary breakdown of the system. The second is an approval of a program of exploitation or expansion which gives promise of increases in pecuniary incomes. In anticipation of these the members of all social groups regard the disorganization incident to enlargement as a slight inconvenience. Thus the immediate interests of the groups unite in a program favorable to the creation of new money-making opportunities and opposed to changes in institutions.

Thus the price-system plays a conservative rôle in social development. It is true, as has been so ably argued, that men do not renounce radical programs because of any conscious fear that their realization will bring economic disorganization and social chaos. Yet, if we were possessed of the eighteenth-century belief in the moral efficacy of man's instincts, we might argue that intuitively men obey just this restraint. Each is conservative in action lest radical changes sweep

away his income. But one's income is but an aspect of the price-system, and its disappearance a mere incident of a more or less general disintegration of the price-structure. Hence the instinct which leads one to protect his income really functions to the preservation of the price-system against radical changes bringing with them general economic demoralization. On this basis one who believes in the system as ordained can easily see in the scheme of articulated prices a safety device, an institution whose function is the preservation of industrialism by protecting it against innovation. Certainly we may concur by admitting that the price-system imposes restraint upon innovation and thus gives continuity to industrial development.

#### 404. The Invisible Hand<sup>12</sup>

BY CALVIN EASLEY MANNING

The direct cause of our social unrest is a decline in religious faith. Ages of godliness have always been eras of brotherhood, of content, of unconcern about worldly matters. The evangelical America of our fathers was a land in which people worshiped God, minded their own business, and meddled with no economic problems. But, with the decay of old-time piety, men are talking and acting as if by impious design they could control the forces of life and turn the stream of progress to their earthly ends. It is the passing of personal righteousness which causes our modern pagans to see in "the divine harmonies" which make up our world only "the great confusion."

An all-good and all-wise Creator did not place us here without making adequate provision for the earthly needs of his children. The great economic system, which claims your service and mine and gives us "livings" in return, is established upon divine principles. Our petty material activities are tied together into a great co-operative system which by God's will serves the whole community. Each of us must make a living by selling his goods or his labor. Each must live upon the goods and services produced by others. Each is free to produce and consume, sell and buy as he pleases. The only constraint is that in whatever each does he must compete with others. This beneficent scheme of spur and rein gets our resources turned into useful commodities, disburses these among us according to our several deserts, and secures the wisest use of all our wealth. Since we must serve those who come to market to buy, and since the fear of competitors makes us act righteously, this providential system ideally meets

<sup>12</sup>A sermon (1922).

all the demands we can impose upon it. It rests upon the immutable laws of competition and is a part of the eternal natural order.

Its wonderful character can be appreciated by observing how easily and completely it disposes of all of our problems. It allows no extortionate prices; for the competition of seller with seller is a perfect device for the protection of the consumer. It guarantees the laborer all the hire of which he is worthy; for the rival demands of employers for workmen must drive wages upward until they represent the full value of the labor. It regulates child labor; for self-interest allows only those children to go into the mills who are not worth the training and keeps out for development and later use all who promise a return upon the investment in education. It determines the flow of immigration; for it allows only those aliens to come to our shores who by finding jobs serve themselves by serving us. It controls the growth of population; for it permits God, who alone can penetrate the veil of the future, to determine when and where there are places for the unborn. In these and divers like ways it is far more efficacious than the hollow mockeries of the reformers who would substitute artificial prices for the natural ones of the market, exclude from our country of freedom God's worthy poor, and blasphemously deny to the precious souls of the unborn not only a sojourn in this world but also life everlasting in mansions not built by hands.

In likewise its magic efficacy softens the buffets which the Maker of the universe has decreed that industrialism shall for a space inflict upon us. It makes the burdens of industrial accident and unemployment tolerable until they shall cease to plague humanity. Since all occupations are not equally dangerous, those which involve a hazard to life and health can secure workmen only by raising general wages by a sum large enough to cover the risk. With the surplus the laborer can purchase insurance which will yield as much compensation as legislation can extort from the blameless employer. The laborer can likewise guard himself against the evils of unemployment by distributing his income in such a way as to provide for inevitable "rainy days." So long as peril to life and limb and the danger of being out of work stalk the land, these earthly trials call out from the laborer diligence, sobriety, prudence, and the fear of God, the virtues out of which Christian patriots are made.

The goodness of this scheme comes from "the inner helps" which the Great Orderer has given man for meeting the vicissitudes of earthly existence. These have been revealed to great religious teachers and have been confirmed by upright men of science. Adam Smith showed that man was possessed of "an instinct to truck and barter"

and found it good. Those who have been alike great churchmen and great economists, like Archbishop Whately, have always recognized the social usefulness of the instinct to pursue one's self-interest. Recently the profound discoveries of the great genius, Professor William McDougall, have shown that there is a separate instinct back of every human action. His work is an amazing confirmation of the teaching of religion that our bodies are fearfully and wonderfully made. Upon its basis anyone can show that man's inner equipment will guide him to his appointed place in the natural order and enable him individually to triumph over every obstacle.

A single example must show the adequacy of man's physical self to meet the problems of a changing social environment. Those who knew neither God nor man prophesied disaster when the discipline of the factory came with its monotonous toil to replace the varied round of agriculture. They cried aloud that only a legislative shortening of the natural working day would save the laborer from doom. But the Great Artificer has wisely placed without the laborer a natural right to freedom of contract and within him feelings which tell of personal wear and tear. The result is that the workingman fixes his own hours of labor in terms of his own fatigue. Verily the adaptability of man is well nigh infinite compared with the tiny variation which change brings to the industrial system.

The end of the adaptability of man is not yet. In God's good time a class of laborers quite immune to industrial accident will probably be produced. It is of common knowledge that accidents happen because the movements of workingmen do not conform accurately to the more rhythmic ones of machines. But the motions of some men meet the test of mechanical regularity better than those of other men. Under the law of survival, which has the approval of Nature, only those workers who most nearly meet the demands of the factory environment live. The children which in time are born to them differ from their parents; some are more able, others less able, to goad and drive machines in safety. Again the fittest are chosen to live and to breed and the unfit left. Thus, through the generations, there will be produced a class of workmen whose movements display the automatic rhythm of the machine itself. Then Providence will have made of industrial accident a memory.

The same inner man will also triumph over unemployment. The great dearth of jobs is an affair of the alternation of prosperity and depression which is called "the business cycle." Some persons endure better than others the rhythm of plenty and starvation which accompanies the ups and downs of trade. It seems reasonable to believe

that in the fulness of time we can, through variation and selection, produce a race of workers who will glut in fat years and live without sustenance in lean ones. A divine Providence which has adapted the bear to a foodless winter, lifted the mouth of the giraffe to the vegetation in the tree top, and given drink to the camel in a thirsty desert, can temper the stomach of the workingman to the ebb and flow within the pay envelope. He who has faith cannot doubt.

The realization of the divine plan is threatened only by godless men who look to themselves for our salvation. They must be opposed by all who believe in the cosmic goodness of things and their pernicious schemes for control scattered asunder. We need altars, not forums; piety, not trade unionism; personal morality, not legislative enactment. We need men, wise men, strong men, who agree with our great political leader. "He who builds a factory builds a temple. He who works there worships there."

Let us remember that the vexations, the tribulations, and the annoyances of terrestrial existence are too precious to be sacrificed. Earthly misery has no sting and poverty no victory. Some of our troubles are the mere incidents of earthly progress. Others are a part of a great discipline which develops the character, purges the soul, and prepares the spirit for life eternal. To cast out of life the sweet uses of adversity would wreck the great penitential whereby our crude selves are converted into the refined stuff of which celestial beings are made.

#### D. CONTROL BY EDUCATION

##### 405. Education and Control<sup>13</sup>

Education is much more than a scheme of formal instruction. It includes all those agencies which help the individual to adapt himself to his social and intellectual environment. It comprehends all those institutions which supply him with an understanding that enables him to co-operate with his fellows in changing that environment. In this sense, in addition to the formal system of schools, it includes many activities of the church, the stage, the press, and the pulpit. Its domain extends into office and factory; its tools include many parts of the business and industrial process. In short, it includes all the instruments and agencies which are used for the organization and dissemination of knowledge, thought, and opinion.

In this larger sense education is an effective antidote against an attempt to dispose of our complicated problems of social well-being

<sup>13</sup>An editorial (1918).



by superstitious and magical processes. Ignorance has always had a welcome for panaceas and has always arduously believed that almost anything is the better for a little "tinkering." Now that the war is gone, there is too generally a disposition to think that all our ills can be cleared away by the use of "industrial councils," "a League of Nations," or a return of the party in opposition to power. If the periodicals are to be believed, "The Tinkers' Chorus" might well become the national anthem. At such a time it is well to remember that new ways of doing things cannot be made to work at the hands of those whose minds cannot comprehend them or whose hearts are hardened against them. Understanding sets the effective limit of accomplishment. As individual knowledge and vision is limited, action for the common good is inhibited. A program for improvement has an effective check in public opinion. Since, under most favorable circumstances, understanding moves slowly from point to point, we will never lack a plethora of problems.

If, then, "understanding" is the "limiting factor" in social and economic development, it is well to note particularly the contribution which it makes to the social process, and to determine how that contribution can be increased. In a society such as ours the functions of education can be briefly set forth as follows:

1. It is necessary to the conservation of our human resources. Every child born into the world brings with him a bundle of latent resources. Some of these will be developed in any environment; some become atrophied, whatever the conditions of life. What talents and aptitudes are developed depend upon the conditions of development. For the sake of the child it is imperative that he be given the opportunity to develop the highest talents he possesses which can be of use in the society in which he lives. This opportunity should not be contingent upon his desire or the choice of his parents. Compulsory education is not the imposition of an obligation; it is a right. Only by its exercise can justice be granted to the individual. Only through it can society enjoy its resources. Ours is an interdependent society in which each enjoys the fruits of the other's labor. If all are to live well, it is imperative that the human resources used in the industrial process shall be developed resources.

2. It is necessary to the utilization of knowledge. The basis of our society is a complicated machine technique. Every occupation, profession, and activity in life is hedged about with a complicated body of knowledge and procedure. Agricultural experts tell us that knowledge of agriculture is a generation or two in advance of its application. Students of medicine insist that their science is many

decades in advance of everyday hygiene. Accountants have devised systems of business records far in advance of those in general use. Education must bring to all sorts and conditions of men both the knowledge needed in their occupations and the more complex technique which has to do with health, leisure, and enjoyment in the great society.

3. It is necessary to the organization of opinion. In an autocracy knowledge of the decorous process of state and the devious ways of industry can remain the property of the few. The small group which acts for all alone needs to be informed and to make up its mind. In a democracy, where rulers keep their "ears to the ground," public opinion is the ultimate basis of policy. If all are to decide about what concerns all; and if they are to decide wisely and well, they must be informed. But this is not enough. On vital points there must be agreement of opinion. Your opinion is not mine, and mine is not that of another. If each remains what it is, there is no basis for action. But if there can be discussion, understanding will emerge, out of which intelligent action can spring. In a democracy education is essential to a public opinion, based upon knowledge, which can control the development of industrial society.

4. It is necessary to make democracy real. The society in which we live is a complicated one. Almost all questions relating to the commonwealth are intricate and baffling. The opinions we pick up on the street or the intuitions we glean from our inner consciousnesses about monopoly, taxation, and industrial relations, are vague and undependable. Since the people control, the people must have knowledge and understanding if they are to choose wisely. In ignorance they can impose conditions upon the organization of industry or of life which will cost dearly. Only through education can they free themselves from the tyranny of the demagogue and impose upon all conditions for the good of all. Above all, in a democracy, it is necessary for them to see common problems in terms of the complex industrial society within which we have our precious existences. Only such education will protect all of us against the ill and mistaken judgments of the great mass of men. Without it, the ignorant will enslave themselves and us. With it they have the key to freedom.

In brief, education serves the double function of protecting the individual and society. It enables him to make the most of his latent talents and to choose his course of life intelligently. It enables all of us to enjoy the goods and services produced by developed human beings adapted to their environment, rather than the far smaller gifts of crude human material unfitted to its work. It permits the organi-

zation of knowledge and of opinion which are indispensable to a control of the common arrangements under which we work and live. Without it there can be no freedom in a democracy.

#### 406. Education and Social Theory<sup>14</sup>

BY A. CLUTTON BROCK

Behind all educational theory there must be social theory. We must know what we wish society to be before we can know what we wish education to be. All ideas about education are based upon ideas about society, even where no social theory is consciously expressed. Thus there is a view of society as a machine existing for some material purpose, either for national survival or the survival of the human race, and of every individual as a part of that machine. Where that view of society is held, education is conceived of as a means of discovering what part each individual is by nature suited to play in the machine, and of training them all for their parts when their fitness has been discovered.

With this theory of education is commonly associated the idea of the educational ladder, which many people believe to be democratic. By means of this ability is discovered in all classes, and an able boy has his chance of becoming a member of the governing class, no matter who his parents may have been. The educational ladder existed in some form, in the Roman Empire and in the Catholic Church of the Middle Ages. It still exists, to some extent, in the Roman Church, so that a peasant may become a pope. But, while it may raise an able boy out of his class, the educational ladder does not necessarily improve the circumstances of those who remain in the class of their birth, and, according, to all mechanical theories of society, that improvement is not, of itself, to be aimed at. Society is in the first place a machine, and the first necessity is to train all to play their parts in that machine. If they are lowly parts, then the more narrow and specialized the training, the better. It would be folly to educate them to become discontented with the functions they have to perform. For the good of the machine they are necessarily sacrificed, as human beings, to their mechanical efficiency. They are broken in like domestic animals and trained to expect only the amount of happiness compatible with the proper performance of their functions.

<sup>14</sup>Adapted from "Two Views of Society—and Education," *Workers' Education Association Yearbook for 1918*, pp. 33-38. Copyright by the Workers' Educational Association.

Again, there is the humanistic conception of society and of education. The essence of humanistic education is, not merely that it should not be vocational—in some cases it might be vocational—but that what is learned should be learned for the love of the subject. In humanistic education all thought of the struggle of life is banished, and it seems desirable only to those who believe that the universe is so happily constituted that an individual and a society can be fitted for the struggle of life by an education which ignores it. It is based, therefore, upon a certain faith, a faith contrary to the belief that society is a machine constructed for success in some form of the struggle for life. According to that faith a society so constituted will not in the long run win the success it aims at. He that would save his life shall lose it. Rather the popular aim of society is to sacrifice no one individual, either to other individuals or to a general efficiency.

This education is called humanistic because it is based on the belief that men are first of all men, not animals, servants, or tools. This belief we all profess to hold in so far as we accept the Christian view of life; but in practice most of us are a little afraid of it. Where this view of life is held, the mechanical theory of society must be rejected. Society must be regarded, not as a machine constructed for some definite material purpose, but as an association of human beings. Being alive, then, it is not fully aware of its purpose. All living things discover the purpose of their life, so far as they do discover it, by living. It is not made for them as for a machine. They grow in consciousness as in other things, and always there is before them a goal of which they are never conscious.

Society, then, being composed of human beings, exists for them, for all and each of them, in the present. Its test is their happiness, which is not to be sacrificed to any theory about the future of society or to any hard and fast definition of its end. For we know this, at least, that the aim is to be discovered, so far as it is discoverable, by all the members of society, and not by any select body of men scientifically observing society as if it were a foreign and inferior object. And the members of society have the best chance of discovering its end, and of achieving it, if they are themselves happy. If they are all living well in their relations with each other, if all have opportunity for the development and exercise of the highest faculties.

For, since society is itself a living thing, its life is the life of all its members. None of them can be unhappy or unwise without communicating unhappiness and unwisdom to the whole. That so-

ciety is the best and healthiest in which the higher functions are most generally distributed, and in which all men are educated with a view to the exercise of those higher functions. That, I need hardly say, is the democratic theory. It is based upon the conception of society as a living thing, not as a machine, and we must judge all theories and measures which profess to be democratic by this test.

•Now if we apply the democratic theory to education we shall find that we are led to certain difficult and dangerous conclusions. For the educator every child will be, not the raw material out of which a part of the social machine can be made, but a human being whose life is to be part of the life of society. And to the educator all these children, being human beings, will be equal. His business is to develop them as human beings without regard to the particular stations they may have to occupy when they are grown up. To him these differences in station and in functions will be evils, even if necessary evils.

Thus, if people tell him that the children of the poor ought not to be taught music, since music will be of no use to them in the factory, his answer will be that to him they are not the children of the poor, but children, and that children should be taught music. If our present society is of such a nature that music is of no use to the poor, then by learning music the poor will become aware of the defects of our society, will see that it treats them as parts of a machine, not as living beings with the higher human desires. And, if they are aware of these defects, they may themselves attempt to remove them. We have to choose at present between a society in which the poor are aware of higher desires unsatisfied and one in which they are not aware of higher desires at all. It is a choice of evils, but the question is, which choice will lead to greater evils?

One who holds the humanistic theory of education will not ask himself whether his teaching is likely to produce discontent, for he does not see society as a machine or education as a means of making the machine run smoothly. If he arouses discontent in his pupils by arousing their higher desires, then it is the business of society, including his pupils, to remove the causes of discontent. Such discontent is to him divine.

If, accepting the machine theory, we educate the masses of the people so that they are fit only for a low quality of labor, we train them also to a misapplication of labor, and so to an inevitable war of class against class, carried on by them with a blindness equal to our own. There is no way out of it except to see them in their

childhood just as we see our own children, to see them as members of our own family, and to deny ourselves for their education as we should deny ourselves for the education of our own children. For if we as a society are not a machine for the turning out of trash and the fomenting of a class war, we are a family, which is the type of all living societies, and the happiness of the family depends on the education of all its members. You cannot turn some of them into tools or drudges without making the life of the rest duller and poorer and less happy. You cannot escape from your poor relations, however much you may try to forget them. At least, the more you succeed in forgetting them, the more, and the more bitterly, they will remember you.

#### 407. A Primary Culture for Democracy<sup>15</sup>

BY CHARLES H. COOLEY

One who looks even a little beneath the surface of things may see that there is no question more timely than that of culture, and none which has more need of fresh and fundamental conceptions. It is by no means merely a question of the decoration of life, or of personal enjoyment; it involves the whole matter of developing large-minded members for that strong democracy which we hope we are building. Without such members such a democracy can never exist, and culture is essential to the power and efficiency, as well as the beauty of the social whole.

We may all agree that culture means the development of the human and social, as distinct from the technical, side of life. Our recent growth, so far at least as it is realized in our institutions, has been mainly technical, the creation of an abundant economic system and a marvellous body of natural science, neither of them achievements of a sort to center attention upon what is broadly human.

Our democracy, in spite of its supposed materialism, has long had at heart the ideal of culture. We are not satisfied with beholding the multiplication of material things, nor even with the hope of greater justice in their distribution; we want joy, beauty, hope, higher thoughts, a larger life, a fuller participation in the great human and divine whole in which we find ourselves. Even those popular movements which formulate their ends in material terms are not really materialistic but get their strongest appeal from the belief that these ends are the conditions of a fuller spiritual life.

<sup>15</sup>Adapted from an article with the foregoing caption in *Publications of American Sociological Society*, XIII (1918), 1-17. Copyright.

Another reason for turning our thoughts to culture is that the economic outlook demands it. We are apparently entering upon a period of cheap, standardized production upon an enormous scale, which will multiply commodities and perhaps increase leisure, but will make little demand upon the intelligence of the majority of producers and offer no scope for mental discipline. Work is becoming less than ever competent to educate the worker, and if we are to escape the torpor, frivolity, and social irresponsibility engendered by this condition, we must offset it by a social and moral culture acquired in the schools and in the community life.

Our culture must be a function of our situation as a whole. If it does not function in the whole, it is nothing. I am in sympathy with those who cling to the great humanistic traditions of the past. There can be no real culture that is altogether new; it can only be a fresh growth out of old stems; but it must be that; it must be new in the sense that it is wholly reanimated by the spirit of our own time. Any attempt to impose an old culture upon us merely because the educated class cherish it, or because it can be supported by general arguments which have no reference to our needs, must fail. Through control of institutions the classicist, the scientist, or the religionist may for a time force the forms of an old learning upon a new generation; but before long all that does not vigorously function in the life of the day will slough off and be forgotten.

Certainly no culture can be real for us that is not democratic. This does not mean, however, that it must be superficial, or commonplace, or uniform. Democracy is at bottom a humane, inclusive, and liberal organization of life, and a democratic culture will be based upon large conceptions, meeting the needs of the plain people as well as of the privileged classes, and worked out largely through the schools and other popular institutions. The idea that such a culture must lack refinement and distinction has no basis in sound theory. An undemocratic humanism, in our time, is not humanism at all.

We should recognize, however, that such traditional culture as we have is not democratic for the most part, but involves the inheritance, through an upper class, of the conceptions of an outworn society. The very word "culture" is in somewhat bad odor with people of democratic sympathies, because it suggests a parasitic leisure. Nothing could be more timely than that the plain people should take up the idea, re-interpret it from their point of view, and give it a chief place on the program of reform.

A living culture is not only an organic part of life as a whole, but it is a complex thing in itself. It must embrace two main aspects: a common or primary culture of knowledge and sentiment diffused through the whole people, and a variety of more elaborate culture processes, informed with the common spirit but developed by small groups in diverse fields of achievement. The aim of a common culture must be a humane enlargement of the thought and spirit of the people, including especially primary social knowledge and ideals; inculcated in no abstract form, but appealing to the imagination and assimilated with experience.

Of the studies now pursued in our primary schools those most plainly suited to be the means of culture are language and history, because they deal directly with the larger human life. Language studies should make the individual a member of the continuing organism of thought and enable his spirit to grow by interaction with it. For our people this means self-expression and a beginning appreciation of literature. Other languages, modern and ancient, belong to specialized culture, not to that of the whole people.

It might perhaps be thought that history would be a study of the humane development of mankind in the past, bringing home to our knowledge and sympathy the common life and upward struggle of the people, and so leading to an understanding of the social questions of our own day. But it is not that in any great degree at the present time. Although some teachers of history are striving to reanimate their subjects in accordance with modern social conceptions, it is my impression that this movement is only beginning and that the study of history in the schools conduces little to an understanding of matters of social and economic betterment.

The central thing in the study of the past common to all American children should be the history of our own country, conceived in a social spirit as our part in the universal struggle for humane ideals of life, political democracy and federation, economic opportunity, social freedom, and higher development of every sort. It should be easy to treat American history in this way and to keep it in constant relation to the ideals and endeavors of our own day.

No aspect of history is better suited to the uses of culture than is the economic aspect, the age-long striving for material support, comfort, and leisure, along with the development and mutations of social classes, leading to our own problems of social justice. These are cultural because, on the one hand, they appeal to actual interest and daily observation, while, on the other, they lead directly to the most



urgent questions of social progress. The fact that history has slighted these things, and that men may pass as experts in it who have made no serious study of them, is itself explicable only by historical causes.

However this may be, it is clear that on grounds of culture every child ought to know something of the struggles of the unprivileged masses to gain a share of the opportunity and outlook achieved by a privileged few. Our middle and upper classes are still, for the most part, limited to a view of such matters that is both undemocratic and uncultured, and which the schools do little to correct.

It seems that instruction in economics and sociology, of a simple and concrete kind, must be a part of universal democratic culture. How this should be related to history is perhaps an open question, but certainly the latter, as it is now understood, is wholly inadequate. When all these studies are informed by a common spirit it may be possible to unite them.

So intimate and so abiding is our relation to nature that natural science may well claim a place in any scheme for a basic humane culture. It would include enough of this to impress the mind with the rule of law in nature and to enable it to understand the experimental method by which man discovers this law and adapts it to his ends.

I must add that any school culture depends for its reality upon the personality of those who impart it. If the teachers and textbook writers were overflowing with those larger views and sentiments that are culture, the students would invariably get them. This in turn depends upon that more adequate recognition by the public of the place of teachers as leaders and exemplars of culture, from which intelligent selection and support would flow. The whole question is one that we cannot solve by any mere change in the curriculum, but is implicated with the spirit and organization of the community.

#### 408. The Function of the College<sup>16</sup>

BY ALEXANDER MEIKLEJOHN

Let other men do what they may; we have a task that overtops them all. We have a part, a leading part, to play in making a mind for a nation. That is the goal on which our eyes are fixed, the adventure in which, student and teacher alike, we are engaged. And

<sup>16</sup>Adapted from "The Mind of the Nation," an address delivered at a dinner of the Amherst College Alumni Association of Boston, February 4, 1916.

so I take this as my theme, the mission of the college in helping to make a mind for this nation.

Has this nation a mind of its own? I fear not. A mind is an activity which gathers up disconnected opinions, impulses, desires, doubts, theories, and brings them into correlation and unity. Ideas, when they are within the same mind, become responsible one to another. Each of them must pay regard to all the rest. They cannot live in isolation, nor yet in little separate groups. The mind demands of them that they shall come together in genuine unity of spirit and of truth. This seeking after unity is the very essence of the thought-life of an individual, and only in the measure in which one achieves it can he be said to be alive at all. Just so it is in the thought of a nation. If we as a people can succeed in making our separate thinking responsible one to another, then as a people we have a mind. But if our thinkings fall apart, we are without a common mind and we must suffer all the ills of those who go through life not knowing what they do nor seeing where they go.

Is the place of judgment to be found in the newspaper? My impression is that we do not so regard it. Do we not commonly think of it as a special pleader, as representative of some "interest," as used by forces to further their ends, rather than as judge and critic rising above all interests and seeking to assign to each its due measure of significance and truth? It may be that we are not fair in thinking this. But whether it is fair or not, so long as this opinion prevails, the newspaper cannot be for us the maker of understanding. Nor can the magazine, or book perform this service. And for another set of reasons neither the church nor yet the home can furnish what we need. No one of these commands our thinking as a whole. And even less our public men are able to bring our thinking under their control. They too are talked about, not as the men we trust to lead and guide us, but as the advocates of parties, sections, interest, creeds.

Where then shall we find the place of understanding, where go that judgment may be given upon the issues of our common life? More than any other institutions, it seems to me, the school and college must assume the task. And especially the liberal college must endeavor to become the place where the common mind is made and moulded. The liberal college is a place where men are trying to gather up the elements of our common life, of our moral, religious, aesthetic, political, economic, and social experience, so that we may understand them, may bring them into relation, may make of them an interpretation of human living. And for this task we must have

within the college leaders of men's thought. The liberal college cannot be merely a teacher of boys. It can teach boys properly only as it becomes a place of counsel and guidance for men. The college teacher must win and keep the confidence of his fellows as one who leads them in the work of understanding. He must command their trust both by integrity and by power. No man may say of him that he is the servant of an interest. Rich and poor, radical and conservative, the breaker down and builder up, alike must find him square and true and free. And in intelligence, as well as in integrity, he must be leader of his fellows. He is a man set apart to learn, to think, to study, to inquire, to question, to conclude—a man whose thinking on the matters he considers should be better than that of other men, just as the cobbler's shoes are better than those which you or I would fashion if we tried to make them for ourselves. To lead in thinking through the fundamental issues of our common life—that is the task of liberal college and of liberal teacher. And they must win the confidence of men that they can guide in making up the people's mind upon the things which are most precious and significant within the nation's life.

## E. THE FUTURE OF INDUSTRIAL SOCIETY

### 409. Progress and Discontent<sup>17</sup>

BY THOMAS BABINGTON MACAULAY

It may at first sight seem strange that society, while constantly moving forward with eager speed, should be constantly looking backward with tender regret. But these two propensities, inconsistent as they may appear, can easily be resolved into the same principle. Both spring from our impatience of the state in which we actually are. That impatience, while it stimulates us to surpass preceding generations, disposes us to overrate their happiness. It is, in some sense, unreasonable and ungrateful in us to be constantly discontented with a condition which is constantly improving. But, in truth, there is constant improvement precisely because there is constant discontent. If we were perfectly satisfied with the present, we should cease to contrive, to labor, and to save with a view to the future. And it is natural that, being dissatisfied with the present, we should form a too favorable estimate of the past.

In truth, we are under a deception similar to that which misleads the traveler in the Arabian desert. Beneath the caravan all is dry and bare; but far in advance, and far in the rear, is the semblance of

<sup>17</sup>Adapted from *History of England*, I (1848), chap. iii.

refreshing waters. The pilgrims hasten forward and find nothing but sand where an hour before they had seen a lake. They turn their eyes and see a lake where, an hour before, they were toiling through sand. A similar illusion seems to haunt nations through every stage of the long progress from poverty and barbarism to the highest degrees of opulence and civilization. But, if we resolutely chase the mirage backward, we shall find it recede before us into the regions of fabulous antiquity. It is now the fashion to place the Golden Age of England in times when noblemen were destitute of comforts the want of which would be intolerable to a modern footman, when farmers and shopkeepers breakfasted on loaves, the very sight of which would raise a riot in a modern workhouse, when to have a clean shirt once a week was a privilege reserved for the higher class of gentry, when men died faster in the purest country air than they now die in the most pestilential lanes of our towns, and when men died faster in the lanes of our towns than they now die on the coast of Guiana. We, too, shall, in our turn, be outstripped, and in our turn be envied. It may well be, in the twentieth century, that the peasant of Dorsetshire may think himself miserably paid with twenty shillings a week; that the carpenter at Greenwich may receive ten shillings a day; that laboring men may be as little used to dining without meat as they now are to eat rye bread; that sanitary police and medical discoveries may have added several more years to the average length of human life; that numerous comforts and luxuries which are now unknown, or confined to a few, may be within the reach of every diligent and thrifty workingman. And yet it may then be the mode to assert that the increase of wealth and the progress of science have benefited the few at the expense of the many, and to talk of the reign of Queen Victoria as the time when England was truly merry England, when all classes were bound together by brotherly sympathy, when the rich did not grind the faces of the poor, and when the poor did not envy the splendor of the rich.

#### 410. The Banquet of Life<sup>18</sup>

BY WILLIAM GRAHAM SUMNER

In 1886 a society published a set of analytical topics covering the field of social science. Among the topics which the student is invited to discuss is this: "The Banquet of Life, a Collation or an Exclusive Feast." The antithesis which is intended is undoubtedly that between

<sup>18</sup>Adapted from "The Banquet of Life" (1887), reprinted in *Earth-Hunger and Other Essays*, pp. 217-21, from the *Independent*, XXXIX, 773. Copyright by the *Independent* and Yale University Press.

a supply for all and a supply for a limited number. If there is any banquet of life, the question certainly is, whether it is set for an unlimited or for a limited number.

If there is a banquet of life, and if it is set for an unlimited number, there is no social science possible or necessary; there would then be no limiting conditions on life, and consequently no problem of how to conquer the difficulties of living. There would be no competition, no property, no monopoly, no inequality. Fresh air and sunlight are provided gratuitously and superabundantly, not absolutely, but more nearly than any other material goods, and therefore we see that only in very exceptional circumstances, due to man's action, do these things become property. If food were provided in the same way, or if land, as a means of getting food, were provided in the same way, there would be no social question, no classes, no property, no monopoly, no difference between industrial virtues and industrial vices, and no inequality. When, therefore, it is argued that there is, or was, or ought to be, a banquet of life, open to all, and that the fact that there is no such thing now proves that some few must have monopolized it, it is plain that the whole notion is at war with facts, and that its parts are at war with each other.

The notion that there is such a thing as a boon of nature, or a banquet of life, shows that social science is still in the stage that chemistry was in when people believed in a philosopher's stone; or medicine, when they believed in a panacea; or physiology, when they believed in a fountain of youth, or an elixir of life. Many of the phenomena of the present seem to indicate that this group of facts is just coming under the dominion of science. The discord and confusion which we perceive are natural under the circumstances. Men never cling to their dreams with such tenacity as at the moment when they are losing faith in them, and know it, but do not yet dare to confess it to themselves.

If there was such a thing as a banquet of life, open to all comers, to which each person was entitled to have access just because he was born, and if this right could be enforced against the giver of the banquet, that is, against nature, then we should have exactly what we want to make this earth an ideal place of residence. We should have first of all, a satisfaction which cost no effort, which is the first desideratum of human happiness, and which we have not hitherto ever seen realized at all except in the narrow domain of luck. Secondly, we should have abstract justice in nature, which we have never had yet, for luck is of all things the most unjust. We should also have equality, which hitherto we have never found in nature. Finally, we

should have a natural right which could be defined and enforced, not against men, but against nature—the trouble with natural rights hitherto has been that they could not be defined, that nature alone could guarantee them, and that against nature they could not be enforced.

If we take the other alternative and conceive of the banquet of life as a limited feast, then we see at once that monopoly is in the order of nature. The question of weal or woe for mankind is: what are the conditions of admission? How many are provided for? Can we, by any means open to us, increase the supply? But when we take the question in this form we see that we are just where we and our fathers always have been; we are forced to do the best we can under limited conditions, and the banquet of life is nothing but a silly piece of rhetoric which obscures the correctness of our conception of our situation.

When men reasoned on social phenomena by guessing how things must have been in primitive society, it was easy for them to conceive of a "state of nature" or a "golden age"; but, as we come to learn the facts about the primitive condition of man on earth we find that he not only found no banquet awaiting him here, and no natural rights adjusted to suit him, but that he found the table of Nature already occupied by a very hungry and persistent crowd of other animals. The whole table was already occupied—there was not room for any men until they conquered it. It is easy for anyone now to assure himself that this is the true and only correct notion to hold on that matter. If land ever was a boon of Nature to anybody it was given away to the plants and animals long before man appeared here. When man appeared, he simply found a great task awaiting him: the plants and animals might be made to serve him, if he could conquer them; the earth would be his if he could drive off his competitors. He had no charter against Nature, and no rights against her; every hope in his situation had an "if" in it—if he could win it.

We look in vain for any physical or metaphysical endowment with which men started the life of the race on earth. We look in vain for any facts to sustain the notion of a state of primitive simplicity and blessedness, or natural rights, or a boon of material goods. All the facts open to us show that man has won on earth everything which he has here by toil, sacrifice and blood; all the civilization which we possess has been wrought out by work and pain. All the rights, freedom, and social power which we have inherited are products of history. Our institutions are so much a matter of course to us that it is only by academic training that we learn what they have cost ante-

cedent generations. If serious knowledge on this subject were more widespread, probably we should have a higher appreciation of the value of our inheritance, and we should have less flippant discussion of the question: What is all this worth? We should also probably better understand the conditions of successful growth or reform, and toleration for schemes of social reconstruction.

Civilization has been of slow and painful growth. Its history has been marked by many obstructions, reactions, and false developments. Whole centuries and generations have lost their changes on earth, passing through human existence, keeping up the continuity of the race, but, for their own part, missing all share in the civilization which had been previously attained, and which ought to have descended to them. It is easy to bring about such epochs of social disease and decline by human passion, folly, blunders, and crime. It is not easy to maintain the advance of civilization; it even seems as if a new danger to it had arisen in our day. Formerly men lived along instinctively, under social conditions and customs, and social developments wrought themselves out by a sort of natural process. Now we deliberate and reflect. Naturally we propose to interfere and manage according to the product of our reflection. It looks as if there might be danger soon lest we should vote away civilization by a plébiscite, in an effort to throw open to everybody this imaginary "Banquet of Life."

#### 411. Keeping Folk at the Table<sup>19</sup>

BY SAMUEL STRAUS

Something new has come to confront American democracy. The Fathers of the Nation did not foresee it. No reformer, no utopian, no physiocrat, no poet, no writer of fantastic romances saw in his dreams the particular development which is with us here and now.

This is our proudest boast: "The American citizen has more comforts and conveniences than kings had two hundred years ago." It is a fact, and this fact is the outward evidence of the new force which has crossed the path of American democracy. This increasing stream of automobiles and radios, buildings and bathrooms, furs and furniture, liners, hotels, bridges, vacuum cleaners, cameras, bus lines, electric toasters, moving-pictures, railway cars, package foods, telephones, pianos, novels, comic supplements—these are the signs. And it is just

<sup>19</sup>Adapted from "Things Are in the Saddle," *Atlantic Monthly*, CXXXIV, 577-79. Copyright, 1924.

these which we accept naturally. We think of them as particularly American.

But, although to us this development may seem natural, to be sure it would not have seemed natural to the Fathers; be sure it would have seemed abnormal to them. Is this to say that the founders of the Republic never looked forward to the time when every citizen would have his own conveyance, his own house with abundant furniture, when every wife and daughter would have silk garments and a piano to play upon like a princess? No; it might be said that this was precisely that to which they did look forward; this was an essential part of their expectation. Surely they saw a nation of free citizens in a land flowing with milk and honey, gradually lifting themselves to a new economic level; they saw that citizens would be educated to more and more comforts; that men's tastes would improve; that women would want better surroundings. But they could not foresee what has happened. They could not foresee at what a rate the machine would multiply things; they could not foresee how the prosperity—indeed, the very existence—of the nation would come to depend upon people being forced to use what the machine pours out.

What is the first condition of our civilization? In the final reason, is it not concerned with the production of things? It is not that we must turn out large quantities of things; it is that we must turn out ever larger quantities of things, more this year than last year, more next year than this; the flow from mill and mine must steadily increase. There are a thousand programs cooking throughout the country, there are a thousand isms and causes and parties, each with its own notion of what must be done for the national good and the human good. Some of them are at war with one another, but at one point they are allies; some of them are worlds apart, speaking languages strange to one another—yet one word they have in common. No statesman, no pacifist, no League-of-Nations enthusiast, would entertain his pet scheme for a moment longer if he believed it would mean that ten years later people would buy half of what they buy today. For the standard of living to sag back, for the people to buy but half of what they used to buy—everybody knows that that means ruin, and not the ruin of business alone. The national prosperity gone, the national safety is in danger. This is not a fear; it is a fact. If anything were to happen to industry, there would be first confusion and then decline in all our institutions; our great system of free education for the nation would wither, our organized charities would dry up, the thorn and the nettle would spring up in our parks, our slums would become fever spots, our roads would fall into decay; more than all, our ideals of political authority would be a heap of jackstraws;



we should hold the kind of government the Fathers gave us to be a broken reed.

Production has played many parts in history; it has taken various forms. The form which it takes in this, the Machine Age, is strange and new. Through the centuries, the problem has been how to produce enough of the things men wanted; the problem now is how to make men want and use more than enough things—"the science of plenty," it has been called. Formerly the task was to supply the things men wanted; the new necessity is to make men want the things which machinery must turn out if this civilization is not to perish. Today we dare not wait until men in their own good time get around to wanting the things; do we permit this, the machine flies to pieces. The wind blew and so the windmill went around. Under the new order, the windmill goes around and so the wind must blow. It is becoming a matter of general remark that the economic emphasis is changing; it is shifting from how to make things to how to dispose of the things that are made so that the machine can be kept in constant operation. The problem before us today is not how to produce the goods, but how to produce the customers. Consumptionism is the science of compelling men to use more and more things. Consumptionism is bringing it about that the American citizen's first importance to his country is no longer that of citizen but that of consumer.

#### 412. Wanted: A New Symbolism<sup>20</sup>

BY ALVIN S. JOHNSON

The aristocracies have vanished, we shall never know them again. The work of supplying the world, now and for the future, has become one of such complexity, requiring so broad a diffusion of general intelligence, that merely personal dignitaries can never again acquire their ancient influence over man's mind, their ancient hold on his conduct. There remains in the world only the common man. Differences in natural endowment, in culture and in wealth persist; but these can not alter the fact of a fundamental democracy. So far as we serve, we serve the common man.

But—and this we must fix in our minds—the common man of today is not the obscure citizen of earlier epochs. The same commercial process which has broken down the earlier class organization has produced a differentiation in economic structure, an interdependence of parts, which compels us to conceive of economic society

<sup>20</sup>Adapted from "An Ethical Aspect of the New Industrialism," *South Atlantic Quarterly*, XII, 9-11. Copyright, 1912.

as a living organism. The common man of today compares with his prototype of yesterday as the cell in an organized tissue compares with the cell in the half-coherent mass of protoplasm. The functions of the individual are now organic functions, far transcending the narrow confines of his own personality. The pilot, the engineer, the steel worker, the coal-heaver, are significant, not in themselves, but in the social work they perform. With the progress of time, a constantly increasing share of the population assumes functions essentially social.

In serving the common man, then, we are performing a work far more worth while than that of supplying the needs of an individual, of whatever personal worth. We are serving a social functionary in the last analysis, society itself. Our work, then, is significant or meaningless according as we conceive society itself as worthy or not. If we are constrained to think of our society as ninety million persons, chiefly knaves and fools, the service will be irksome, to be shirked, if possible. If the society we serve is full of brutality and injustice, disfigured with poverty and ignorance, corrupted with cynicism and self-indulgence, it can not inspire us with loyalty in its service. The exhausting toil of the long day, the hopeless misery of the sweatshop, the sordid depravity of the slum, can not much longer cumber the earth if society is to command the best efforts of its servitors. We are not now concerned with the question of justice to those who live and toil in wretchedness. That question is worth considering in its proper place; it is sufficient here to indicate that, for the orderly progress of industry in the coming era, we must remove conditions that destroy our faith in society. Men in the service of society will give their best efforts only if society is worth serving.

But it is not sufficient that society should be worth serving, the worth of society and the worth of work in its service must be given concrete expression if these values are to mold men's conduct. Today these values are perceived, but dimly; they exercise an influence in limited fields. Men in the service of the railways, as a rule, endeavor honestly to realize the ideal of continuous and adequate service. Coal miners are loth to strike at the opening of winter. Their social function plays a part—though unfortunately a minor part—in controlling their economic policy. As a rule, however, the servants of society, employers and employees alike regard any peculiar dependence of society upon their services as an element strengthening their bargaining position, a peculiar opportunity for gain. The wheat is falling from the head; the fruit is rotting on the tree; an excellent time

for a concerted demand for higher wages! An industrial city has been built upon the expectation of the continuous supply of material: what an opportunity for the material producers to levy tribute! A whole nation lives from day to day upon the fruits of its mechanical industries; coal is its bread. A dazzling prospect of gain lies before those who can possess themselves of the mastery of the mines. Responsibility of function is opportunity for gain; so prevalent is this conception that when we assert that the use of responsibility for gain, not for service, is a species of treason, we seem to be harking back to the middle ages. And so we are. But there is much in the mediæval industrial spirit that is eternal: much that must be restored to our society after the disorders of an era of expansion and exploitation.

The worth of society and of work in its service—these are the social values that must govern in the new industrialism. As mere abstract ideas they can have no potency. As abstract ideas the kings and nobles of an earlier age had no potency; they were invested with the power of social values by the work of architects and sculptors, poets and philosophers. The poets, as it were, created kings and knights—ideals toward which actual rulers and nobles sought to elevate themselves. Architects and sculptors, painters and poets, can transform social man and society into values capable of dominating industry. The task may be difficult; but it is no more difficult than that of vesting glory in the House of Atreus or the House of Bourbon.

The ultimate need of the new industrialism, then, is not more trained skill, more applied science—although these two are good things in their way—but artists and poets who shall translate society and social man into terms of values worth serving. When these have done their work we shall hear less of the deterioration of labor and the abuse of responsibility, of industrial decay and social corruption, of irreconcilable conflict and threatened revolution. A revolution will have been accomplished: a revolution in ideals and in values.



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